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OVERSIGHT HEARING OF THE U.S. POSTAL SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON THE POSTAL SERVICE

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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OVERSIGHT HEARING OF THE U.S. POSTAL SERVICE

TUESDAY, SEPTEMBER 19, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 1 p.m., in room 2154, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives McHugh, Sanford, LaTourette, Fattah, Owens, and Davis.

Also present: Representatives Tierney and Biggert.

Staff present: Robert Taub, staff director; Heea Vazirani-Fales and Loren Sciurba, counsels; Matthew Batt, clerk; Jane Hatcherson, professional staff member; Robin Butler, office manager, Committee on Government Reform; Dana Johnson, deputy chief of staff, personal staff; Abigail Hurowitz, communications assistant, personal staff; Tony Haywood, minority counsel; Denise Wilson, minority professional staff member; and Earley Green, minority assistant clerk.

Mr. MCHUGH. I want to apologize at the outset. There are all kinds of new electronic gimmicks up here, and fail-safe systems, and I have not been cleared for flying this machine. So if there is any breakdown, I apologize for that.

Let me welcome you all here. I don't see a gavel, so I will call the meeting to order.

Thank you so much for being here in such strong numbers. Certainly, as we all know, our witnesses today are not newcomers. They have, to a person, all testified before this subcommittee on previous occasions, and I want to thank them again for participating in this, our annual oversight hearing.

Of course, they include the Postmaster General, Bill Henderson; the Inspector General of the U.S. Postal Service, Carla Corcoran; and again, Mr. Bernard Ungar of the General Accounting Office. I know I speak for all of the members of the subcommittee when I express our appreciation to you all for your help and your cooperation over these past years. Certainly we are very interested in what you are going to share with us today.

I would also like to state my appreciation to the Postmaster General, for most of you who have had the time to read his opening statement, for the kind things he has to say about me in that presentation. I am not certain they are deserved, but they are greatly

appreciated. I think he describes very well the road that we have traveled these past 6 years in trying to modernize our postal laws.

It has been a road that has been filled with detours and potholes and distractions. Indeed, to the detriment of many Americans, I fear that postal reform may not in fact be enacted in the year 2000. But we are fooling ourselves if we think that with the growing cost pressures and shrinking revenue base of the Postal Service, that this Congress can continue to delay addressing this most important matter.

Sustained volume declines, coupled with early delivery cost increases, ensure that the postal laws will have to undergo, I think, a major adjustment. My fear is that rather than undertaking reasonable and gradual changes, as we have attempted to accomplish, we will instead find ourselves dealing with the worst crisis and be left with choices of desperation in our duty to provide affordable universal mail delivery that binds the Nation together.

Let's not kid ourselves: The crisis is upon us. In the past year, the Postal Service has encountered increasing financial difficulties as mail volumes have grown more slowly than expected and as postal costs have increased greatly and have been proven difficult to restrain. With just days left in the fiscal year, the Postal Service is facing its first money-losing performance since 1974. The Postmaster General stated last month that the service could be as much as $300 million in the red when the books are tallied a few days from now.

The testimony of the nonpartisan independent General Accounting Office I feel focuses like a laser on the key policy challenges facing Congress and the American people. I would like to quote from that report briefly, if I may.

> the Postal Service faces an uncertain future. Can the Postal Service maintain and, where necessary, improve on the quality of mail delivery service? Can the Service continue to provide affordable postal rates? Can the Service remain self-supporting through postal revenues? Can the Service continue in the long term to provide the current level and scope of universal postal service?

The Postal Service is lumbering along under a 30-year-old legislative framework and it may not be able to overcome the problems it faces. As the Inspector General will underscore, the Service faces major management challenges in its attempts to grow revenues and to compete in a rapidly changing market, maintain affordability, improve the workplace climate, and enhance productivity.

It is no surprise that the Postal Service is seeking innovative approaches to dealing with these challenges. About 2 weeks ago, the Postal Service announced the possibility of a strengthening alliance with Federal Express. Questions have and, I suspect, will continue to a rise from this pronouncement and we will be interested in further explanation and evaluation from our witnesses on that topic today.

There is plenty to be discussed in this oversight hearing. Both the IG and the GAO are on the front lines as America's postal watchdogs, and they have proven to be valuable partners with the Congress in reporting to us on a broad range of postal operations. We look forward to their testimony today and our review of initiatives they have indicated to the Postal Service that they could undertake to improve its own performance.

As both the IG and the GAO have found, the Postal Service requires significant attention to such areas as labor management relations, internal controls and revenue projections; and the subcommittee looks forward it hearing from them and from the Service as to plans to develop innovative solutions to these long-standing problems.

Furthermore, a troubling finding of the GAO is its negative assessment of the Postal Service's efforts under the Government Performance and Results Act. The performance plans and reports that are required under the act should allow Congress, postal managers and the American public to easily determine how well the Postal Service is improving its performance and achieving its goals. Unfortunately, it appears that the latest reports are not as clear and understandable as they might be, and we look forward to discussing this important issue today.

Those are just a few of the topics that I suspect we will be venturing into. There may, in fact, probably will be others. Let me go off script for a moment.

As I suspect the number of people here suggest, many of you are aware that this will be our final oversight hearing in this Congress. As I understand the rules, as I understand the vagaries of elections, it will probably be my last as chairman. I want to express my deepest appreciation to all those who have been so helpful to me.

Of course, Mr. Fattah here, the gentleman from Pennsylvania, and his very active role in assisting us, along with our staffs, in trying to undertake, I have to say, one of the more bipartisan efforts in committee in Congress, this very important challenge. It has been a pleasure to all the subcommittee members on both sides. I appreciate all of the help, all of the insights and hard work that they have put together; to the Postmaster General, Bill Henderson and his successor, for putting up with me and my well-intended but nevertheless I suspect far too often misguided and misdirected efforts; and to the folks here at the panel.

I want to thank those of you in the audience, many of whom I have gotten to know so very well over the past 6 years. I have said repeatedly that I did not recognize the scope of what the Postal Service means in America when Bill Clinger called me that first day and asked me to take up this position. I am amazed at how this network of sometimes very different organizations and interests works so well together, and even when there is disagreement, the focus remains upon the critical nature of delivering our Nation's mail to virtually every household in America.

It is a humbling experience, and I can only express in very inadequate words the admiration I have for the more than 800,000 postal workers in this Nation who deliver tens of millions of pieces of mail each and every hour of each and every day to America. It is something that most of us take for granted, because they have done it so well for so long, but I would hope that would be an opinion and a perspective that in the future this subcommittee not adopt, because it doesn't just happen. It takes a lot of hard work and a lot of cooperation, and we need to be productive players in that.

Last, and certainly not least, I want to express both my deepest thanks and my highest admiration for the subcommittee staff members, the folks who are seated here who really are remarkable in their understanding and their dedication to this initiative. I understand that government employees, staff people, whether they be here on the Hill or located in a bureaucracy, are often maligned, and I think very unfairly so. But I have never in now nearly 30 years of public service been associated with a finer group of individuals.

I get into trouble if I start mentioning names, but I do want to mention a few: Dan Blair, who was our first committee director, who has now moved on to bigger and brighter things, he tells us, over in the Senate. I am sure that that is true. Of course, Steve Williams, who has moved on to better things. I saw Steve earlier here today, who was so helpful in those early days.

We now have some folks who started with the subcommittee, who have moved on, who may be in the room today: Ken John, who went on to the GAO, Abby Hurowitz, who definitely took a demotion and came to work on my personal staff, but who remains such a joy and a delight. We have Tom Sharkey, who was first a detailee from GAO to the subcommittee and then from the IG to the subcommittee, and Loren Sciurba and Matthew Batt; and of course Heea Vazirani-Fales, who has been with the subcommittee for so many years, who brings a sense of focus to us; and Jane Hatcherson and others who are here.

I save, in my humble opinion, the best for last. I really want to thank the gentleman on my left, Robert Taub, who is now the director, and as my chief of staff is continuing to give me the opportunity to work with one of the brightest people I have met in my life and one of the nicest guys I have met in my life.

These people, taken collectively, have given me invaluable insight and assistance at those times when I was too far off point—it was because I didn't listen to them well enough; those times when I came out looking fairly well, it is because I listened to them very well. I want to thank them and all of you.

With that little trip of nostalgia, I would now be happy to yield to the ranking member, the gentleman from Philadelphia, PA, for any opening comments he might wish to make.

Mr. FATTAH. Thank you, Mr. Chairman.

Let me first indicate that I think that when the entire story is written on postal reform, the gentleman from New York will have been the impetus for reforming the Postal Service here in these United States. Your work, even though you may not realize a result immediately, in the short-term future does set the context in which this country will go forward in terms of trying to respond to the set of uncertainties that exists in which the Postal Service has to operate.

I want to commend you for your work. For those of us in the minority, we have never felt we were in the minority working with you. We felt it was a partnership, and we want to thank you for your leadership on these critical issues.

I do want to recognize many who are in the audience, but in particular, a Board of Governor member from my State of Pennsylvania, Ms. Daniels. I want to recognize her presence.

I have a formal statement that I will enter into the record, but it is obvious that the Postal Service has, as I think the Postmaster General will lay out, a multiprong strategy to deal with the issues that it confronts, cost containment and growing revenues and the question of legislative reform. I don't want to delay us from hearing from the Postmaster General and from the other witnesses.

I will enter my statement for the record, and will be very interested to hear not just on the broader subjects that the Postmaster General will outline, but also on an emerging new set of interests and concerns relative to the FedEx discussions. And even though there has been no formal material provided or, perhaps, even agreed upon at the moment, this committee and its work will have to be informed by those discussions as we go forward.

I would thank you, Mr. Chairman, and I will provide my formal remarks for the record.

[The prepared statement of Hon. Chaka Fattah follows:]

Statement of the Honorable Chaka Fattah

before the

Subcommittee on the Postal Service

Oversight Hearing of the United States Postal Service

Tuesday, September 19, 2000

Mr. Chairman,

As the Ranking member of the Subcommittee on the Postal Service, I am pleased to join you today at the Oversight Hearing of the U.S. Postal Service.

This has been a very active year. We began 2000 with an uneventful Y2K. After months of hearings and reviews, the postal service was Y2K prepared and as a result mail delivery and service continued as usual. Thankfully, we had no need for "contingency plans." Your work in this regard was very much appreciated.

We passed Y2K with flying colors and went right into the filing of a rate increase which was formally presented on January 12, 2000. The proposed postal rate increases for all classes of mail are designed to raise $3.7 billion in new revenues – beginning in 2001. The postal service suggests that the "average" increase for mailers is approximately 6.4%. Unfortunately, for nonprofits and magazine industry, the hit is double-plus the average increase.

To its credit, the postal service requested and proposed legislation to fix the nonprofit rate anomaly. The legislative fix was drafted with input from the Alliance of Nonprofit Mailers, the Magazine Publishers of America, National Federation of Nonprofits, Direct Marketing

Association, and the Association of Postal Commerce. These organizations worked with the postal service to craft an acceptable legislative solution to the nonprofit rate problem in the current rate case before the Postal Rate Commission. You are all to be commended.

On June 7, 2000, Senator Thad Cochran, Chairman, and Senator Daniel Akaka, Ranking member of the Senate Subcommittee on International Security Proliferation and Federal Services, introduced S. 2686, the industry and postal service solution to the nonprofit rate anomaly. On June 12, 2000, I, along with Congressman Steny Hoyer, Ranking member of the Appropriations Subcommittee on Treasury, Postal Service and General Government, and the minority members of this subcommittee, Congressmen Danny Davis and Major Owens introduced the House version of S. 2686; H.R. 4636, the Nonprofit Relief Act. Without the passage of this legislation, the nonprofit periodical preferred rate will disappear. On behalf of local charities, hospitals, churches, educators, arts organizations, nonprofit publications and a host of others, I urge swift action on this issue.

In November of last year, I contacted Chairman Edward Gleiman, Chairman of the PRC, and requested that he review and analyze postal service volume forecast data relative to the decline in first-class mail volume. You will recall that this subject was the discussion at a

Subcommittee general oversight hearing held on October 21, 1999. Chairman Gleiman responded to my letter which I would like to make part of today's hearing.

Last month, the United States Postal Service Commission on a Safe and Secure Workplace, chaired by Joseph A. Califano, Jr. released the results of a 2 year study requested by PMG Henderson. The PMG charged the Commission to "detail concrete steps which the postal service can take to make its 38,000 post offices the safest possible environment for its employees." An important conclusion from the report is that "going postal" is a myth.

Mr. Chairman, before I close, I would like to take this opportunity to thank the IG for her prompt work on a minority advertising issue I requested her office to look into in June of this year. I intend to explore this matter further. You are also to be commended for your hard work on the revenue assurance program.

I would be remiss if I did not acknowledge Chairman McHugh and Subcommittee staff work and direction on the nonprofit rate issue and the revenue assurance matter. As always, we thank you for your diligence and interest. I look forward to working with you on these issues.

A new and very important matter which is of major interest to this subcommittee is the recent revelation that the postal service and FedEx are discussing a strategic alliance. Although discussions with FedEx and others have been underway for a number of years, to date nothing formal has been agreed to or presented to the Congress. As the Ranking member of this subcommittee, I welcome the opportunity to review, comment upon, and hold for public hearing, any such plan. It should come as no surprise or secret that a number of federal agencies – such as the Department of Justice and Customs – would be very interested in seeing the details. We are all quite interested in this new development and I encourage PMG Henderson to keep us informed and in the loop.

With that, I welcome our distinguished presenters and look forward to your testimony. Thank you.

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Congress of the United States

House of Representatives

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November 9, 1999

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BERNARD SANDERS, VERMONT,
INDEPENDENT

Honorable Edward J. Gleiman, Chairman
Postal Rate Commission
1333 H Street, NW, Suite 300
Washington, DC 20268-0001

Dear Chairman Gleiman:

On October 21, 1999, the Subcommittee on the Postal Service held a general oversight hearing on the United States Postal Service. At issue were projections by the Postal Service that competition will lead to substantial declines in First-Class mail volume in the next decade.

Specifically, the Postal Service provided the General Accounting Office (GAO) with a volume forecast scenario that first class mail will decline at an average annual rate of 2.5% in fiscal years 2003 to 2008. The projection is based on the assumption that diversion of mail to electronic communications alternatives will accelerate creating a vastly different environment in which the postal service would operate. According to Postmaster General William Henderson, such an unprecedented decline in mail volume would place $17 billion of postal revenue at risk. Such a drastic forecast could impact the operation of post offices across the country and see postage rates increase by 17 cents over the current 33 cent rate.

The GAO, while predicting that the "postal service may be nearing the end of an era," admitted that it has not analyzed or verified the postal service data on which the forecast was based.

Given the enormity of this matter and the longstanding problems associated with the reliability of postal service data, I would appreciate if your office would review and analyze the Postal Service volume forecast data and the assumptions upon which it is based. Your evaluation would be most helpful in determining an accurate projection of future first-class mail volume and postal revenue.

Very truly yours,

Chaka Fattah

Chaka Fattah
Ranking Minority Member
Subcommittee on the Postal Service

POSTAL RATE COMMISSION
Washington, DC 20268-0001

Office of the Chairman

January 10, 2000

The Honorable Chaka Fattah
1205 Longworth House Office Building
Washington, DC 20515-3802

Dear Congressman Fattah:

I am writing in response to your letter which asked my office to review and analyze a forecast presented by the General Accounting Office and related implications discussed at the October 21,1999, oversight hearing held by the Subcommittee on the Postal Service.

The forecast in question, which was based on information provided by the Postal Service, projected an annual decline in First Class mail volume of 2.5 percent from 2003 through 2008, due largely to the diversion of transactional mail, i.e., bill presentment and payment mail, to electronic alternatives. Subsequent discussions during the hearing included assertions that a volume decline of this magnitude could place $17 billion of Postal Service revenue at risk and result in a 17 cent increase in the price of a First Class stamp.

Your request raises a number of complex theoretical and technical issues. First and foremost is whether the numbers presented by the General Accounting Office represent the product of an established and tested forecasting model or simply reflect a scenario that provides a desired result. Another important issue is whether one can draw reasonable conclusions regarding the impact of changes in First Class volumes when those projections are presented in a vacuum. This in turn raises questions concerning the use of "revenue at risk" in projecting the impact of any downturn in volume and how the timing of future rate increases might mitigate the overall increase required to offset a decline in volume.

2

With respect to the "forecast" of an annual increase in First Class volume of 1.8 percent through 2002, followed by an annual 2.5 percent decrease in years 2003 through 2008, I am not aware of any Postal Service model upon which these projections may be based. This is not to suggest, however, that the USPS numbers presented by the GAO represent an unreasonable scenario.

Indeed, in its study entitled Mail-Intensive Industries to 2010: Rethinking Communications, the Institute for the Future projects an average annual decline of 1.2 percent in financial services letter mail statements and a 1.6 percent decline in utilities and telecommunications letter mail statements in North America. [Table 8-17 at page 103] However, apropos the wisdom of drawing rate implication conclusions from a scenario involving just one type of mail, the Institute's summary growth forecast for six consumer-oriented industries notes that there will be a substantial increase in letter mail associated with advertising and catalogues. [At page 102] Moreover, the study projects a significant increase in goods delivered to couriers and surmises that the posts have an opportunity to play a role, i.e., realize additional volumes, in this growth area. [At page 46] Such an increase would offset or, at the very least, mitigate the impact on First Class rates of declining transactional mail volumes.

Also relevant in evaluating whether the volume projections presented at the hearing should be accorded great weight is the output of the Service's Legislative Reform Simulation Model. The volume assumptions for First Class mail used in this PriceWaterhouseCoopers-developed model show a generally less precipitous, non-linear decline beginning one year earlier and totaling a several percent less cumulative decline than the numbers presented at the hearing. As is the case with the Institute's study, this model assumes a significant increase in overall volume for the same period.

Turning now to the practical implications of declining First Class mail volume as presented at the hearing.

The Commission's technical staff has performed analyses that consider possible effects on First Class letter mail rates resulting from the projected volume decreases. It is an issue that necessarily entails numerous assumptions and considerations. Even under the most dire "worst case" scenario, however, a 17 cent increase in First Class postage substantially overstates the rate increase required to cope with the impact of volume diversion based on the volume forecast provided by the Postal Service to GAO. In fact, the 17-cent figure is approximately twice the increase in the First Class rate that would occur at the end of the forecast period under a worst case outlook. Moreover, this worst case scenario is unrealistic and overstates the impact, as explained below. It is included for completeness.

3

The Commission analyses utilize First Class revenue and attributable cost data from the test year, FY 1998, used in the most recent rate case, Docket No. R97-1. Therefore, they use constant FY 1998 dollars as forecast for that year in the Commission's decision.

These analyses focus on the period FY 2003 - FY 2008, the years of projected volume decline, and estimates what the First Class rate would be in the last year (2008) of the forecast period. Thus, it ignores the effects of volume increases in the period 1999-2002, which in reality would serve to mitigate rate increases required in the period 2003-2008. The analyses also freeze the First Class institutional cost contribution at a projected 2002 amount, the last year of projected volume growth, and assume that the annual First Class contribution amount needed in succeeding years remains at the 2002 level.

For the period 2003-2008, the Commission staff study varied the length of the rate cycle and the timing of the rate change within a rate cycle. The First Class rate required in 2008 is directly related to these variables, and it is particularly sensitive to the timing of the rate change within a cycle. The study's results are presented in Tables 1 and 2 of this response.

Table 1 shows projected results for First Class letter mail, assuming no rate increase in the period 1999-2008. It uses 2002, the last year of volume increases, as the jump-off point. Column (9) shows that the annual year-to-year amount of lost contribution is $377 million in 2003 and decreases to $332 million in 2008. Column (10) indicates that the amount of annual contribution in 2008 is $2,124 million less than it was in 2002, before the Postal Service-forecast volume decreases occur. Column (12) shows that the cumulative loss in contribution for the period 2003-2008 is $7,590 million. This is the amount of lost contribution that has to be recovered by rate increases in the period 2003-2008.

Table 2 presents the results of recovering the lost contribution assuming different rate cycle lengths and different timing of rate changes within a cycle. There are numerous combinations of cycle length and implementation of timing within a cycle, and the analyses presented are not exhaustive. The scenarios shown were selected because they include the lower and upper bounds, as well as more realistic examples between the extremes, in terms of rate cycle length and rate change implementation within a cycle.

Scenario 1 assumes a one-year rate cycle. If First Class rates are changed annually, those rates would have to rise by about 0.4 cents per year. The rate at the end of the period, 2008, would be about 2.41 cents higher than the rate in 2002. This and other scenarios shown obviously represent theoretical exercises, since the First Class rate has traditionally been set in one cent increments; however, these scenarios provide insight into the magnitude of required rate changes to compensate for First Class volume declines.

4

The second case shown, Scenario 2, assumes a two-year rate cycle with rate changes occurring in the second year of the two-year cycle. The First Class rate required at the end of the 2003-2008 period is 2.82 cents above the 2002 level, and less than one-half cent above that required in Scenario 1. This scenario illustrates a result that becomes more pronounced in subsequent scenarios: a rate increase in the final year of the first multiple year rate cycle sets in place a rate for the next rate cycle that is higher than necessary for that cycle. This produces the erratic sequence of oscillating rate increases shown in Scenario 2, where increases for 2004, 2006, and 2008, are 1.15 cents, 0.43 cents, and 1.25 cents, respectively. If extended two more years (2010) under the same set of assumptions, the increase would again be less than that shown for 2008.

Scenarios 3 and 4 incorporate a three-year rate cycle, and Scenario 3 highlights the phenomenon displayed in Scenario 2. An increase in the final year of the three year rate cycle is assumed in Scenario 3 and would produce an actual rate decrease in the final year of the second rate cycle (2008). This is a result of the same effect discussed in connection with Scenario 2, where rate increases in the final year of the first cycle set the rate so high that in the next cycle lesser increases, or even decreases, occur. On the other hand, Scenario 4 assumes that rate changes occur in the middle of the cycle, in effect a three-year test period, and this results in an orderly series of rate changes (1.15 cents and 1.25 cents). In the final year of the second cycle the rate would be 2.40 cents above the 2002 rate. The 2008 rate in Scenario 4 is virtually the same as that produced by Scenario 1, which assumed rate increases each year. Scenario 4 corresponds to historical patterns, or at least popular perceptions of historical patterns: it incorporates a three year cycle, where the rate set is presumably high in the first year, about right in the second year, and a little low in the third year of the rate cycle.

Scenario 5 is an extreme case assuming one rate cycle and a rate change in the final year of the six-year cycle, i.e., no rate changes for years 2003-2007 and a change in 2008. Under this scenario the rate increase in 2008 would be 8.60 cents. The increase is so high because it makes up all the lost contribution from the previous five years in one year. It should be noted that in the past, when substantial shortfalls left the Postal Service with a significant deficit, that deficit has been recovered gradually, rather than in a single large rate increase. And as discussed above, previous scenarios have shown that catch up increases in the last year of rate cycles leave the rate too high for the next cycle. This scenario produces an artificially high rate in the last year, 2008, and appears unreasonable.

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To sum up the study's findings, a rate about 2.4 cents higher than the 2002 rate appears necessary to compensate for the First Class contribution lost as a result of volume diversion in the period FY 2003-2008. This assumes that an orderly series of rate changes, each year or every three years, is desirable.

The highest rate in the final year of the period under study occurs only if rate changes are deferred and "catch up" of lost institutional contribution is made all in one year. However, this results in a rate too high, probably much too high, for subsequent years. Moreover, this scenario appears to be economically unsound and politically unacceptable. In any event, the rate in 2008 would be 8.6 cents above the 2002 level, a large increase, but still far below the postulated 17-cent increase that inspired this study.

The assumptions underlying this study are presented in table 3. In addition to those noted in the above narrative, it is important to highlight two other assumptions. First, it is assumed that lost First Class contribution is recovered from First Class mailers by increasing First Class rates. Other mail classes are not considered subject to future diversion, are expected to grow, and could possibly help make up the lost First Class contribution. The second assumption involves variable costs, which constitute about two-thirds of Postal Service costs. The study uses the same methodology used in rate cases which assumes that variable costs increase and decrease proportionally with volume. If the Service finds that it is unable to shed variable costs when volume decreases, rates would have to be higher. However, forecasted volume does not start declining until 2003, and the long lead time should give the Postal Service sufficient notice that fundamental change may be coming.

Please let me know if I can be of further assistance on this or other matters.

Sincerely,

Edward J. Gleiman

Enclosures

Table 1
GAO/Postal Service Volume Scenario Applied to First-Class Letter and Sealed Parcel Subclass
Assuming No Rate Change

Fiscal Year	Forecast Volume of Letters & Sealed Parcels (Millions)	Average Annual Percentage Change	Annual Change in Volume (Millions)	Revenue Per Piece (Cents)	Revenue ($ Millions)	Attributable Cost Per Piece (Cents)	Attributable Costs ($ Millions)	Contribution to Inst. Costs ($ Millions)	Annual Change in Contribution to Inst. Costs ($ Millions)	Change in Contribution to Inst. Costs From FY 2002 ($ Millions)	Cumulative Change in Contribution to Inst. Costs From FY 2002 ($ Millions)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1998	95,648			34.95	33,424	20.28	19,393	14,031			
1999	97,369	1.8%	1,722	34.95	34,026	20.28	19,742	14,284	253		
2000	99,122	1.8%	1,753	34.95	34,638	20.28	20,097	14,541	257		
2001	100,906	1.8%	1,784	34.95	35,262	20.28	20,459	14,803	262		
2002	102,722	1.8%	1,816	34.95	35,896	20.28	20,827	15,069	266		
2003	100,154	-2.5%	(2,568)	34.95	34,999	20.28	20,306	14,693	(377)	(377)	(377)
2004	97,650	-2.5%	(2,504)	34.95	34,124	20.28	19,799	14,325	(367)	(744)	(1,121)
2005	95,209	-2.5%	(2,441)	34.95	33,271	20.28	19,304	13,967	(358)	(1,102)	(2,223)
2006	92,829	-2.5%	(2,380)	34.95	32,439	20.28	18,821	13,618	(349)	(1,451)	(3,674)
2007	90,508	-2.5%	(2,321)	34.95	31,628	20.28	18,351	13,278	(340)	(1,792)	(5,466)
2008	88,246	-2.5%	(2,263)	34.95	30,837	20.28	17,892	12,946	(332)	(2,124)	(7,590)

Sources:
(1) FY 98 volume is from FY 1998 RPW Report.
(2) Testimony by Bernard L. Ungar, Director, Government Business Operations Issues, General Government Division, GAO, before the Subcommittee on the Postal Service, Committee on Government Reform, House of Representatives, on October 21, 1999 (GAO/T-GGD-00-2), Page 4, Figure 1 "U.S. Postal Service Projects Future Decline in First-Class Mail Volume."
(4) and (6) Appendices to PRC Opinion and Recommended Decision, Volume 2, Appendix G, Schedule 1, Docket No. R97-1.

Table 2
GAO/Postal Service Volume Scenario Applied to First-Class Letter and Sealed Parcel Subclass
Assuming Rate Changes in the Period 2003 through 2008

Fiscal Year	Forecast Volume of Letters & Sealed Parcels (Millions)	Before Rates: Contribution to Inst. Costs Per Piece (Cents)	Before Rates: Total Contribution to Inst. Costs ($ Millions)	After Rates: Contribution to Inst. Costs Per Piece (Cents)	After Rates: Total Contribution to Inst. Costs ($ Millions)	Unit Contribution/ Rate Change (Cents)
	(1)	(2)	(3)=(1)*(2)	(4)	(5)=(1)*(4)	(6)=(4)-(2)
2002	102,722	14.67	15,069	14.67	15,069	
		Scenario 1: One-Year Rate Cycle				
2003	100,154	14.67	14,693	15.05	15,069	0.3762
2004	97,650	15.05	14,693	15.43	15,069	0.3858
2005	95,209	15.43	14,693	15.83	15,069	0.3957
2006	92,829	15.83	14,693	16.23	15,069	0.4058
2007	90,508	16.23	14,693	16.65	15,069	0.4162
2008	88,246	16.65	14,693	17.08	15,069	0.4269
Total Rate Change						2.4066
		Scenario 2: Two-Year Rate Cycle with Rate Increase in Second Year				
2003	100,154	14.67	14,693	14.67	14,693	0.0000
2004	97,650	14.67	14,325	15.82	15,446	1.1478
2005	95,209	15.82	15,060	15.82	15,060	0.0000
2006	92,829	15.82	14,683	16.24	15,079	0.4259
2007	90,508	16.24	14,702	16.24	14,702	0.0000
2008	88,246	16.24	14,334	17.49	15,437	1.2495
Total Rate Change						2.8231

Table 2 (Continued)
GAO/Postal Service Volume Scenario Applied to First-Class Letter and Sealed Parcel Subclass
Assuming Rate Changes in the Period 2003 through 2008

Fiscal Year	Forecast Volume of Letters & Sealed Parcels (Millions)	Before Rates: Contribution to Inst. Costs Per Piece (Cents)	Before Rates: Total Contribution to Inst. Costs ($ Millions)	After Rates: Contribution to Inst. Costs Per Piece (Cents)	After Rates: Total Contribution to Inst. Costs ($ Millions)	Unit Contribution/ Rate Change (Cents)
	(1)	(2)	(3)=(1)*(2)	(4)	(5)=(1)*(4)	(6)=(4)-(2)
2002	102,722	14.67	15,069	14.67	15,069	
Scenario 3: Three-Year Rate Cycle with Rate Increase in Third Year						
2003	100,154	14.67	14,693	14.67	14,693	0.0000
2004	97,650	14.67	14,325	14.67	14,325	0.0000
2005	95,209	14.67	13,967	17.00	16,190	2.3348
2006	92,829	17.00	15,785	17.00	15,785	0.0000
2007	90,508	17.00	15,391	17.00	15,391	0.0000
2008	88,246	17.00	15,006	15.90	14,032	-1.1038
Total Rate Change						1.2310
Scenario 4: Three-Year Rate Cycle with Rate Increase in Second Year						
2003	100,154	14.67	14,693	14.67	14,693	0.0000
2004	97,650	14.67	14,325	15.82	15,451	1.1526
2005	95,209	14.67	13,967	15.82	15,065	0.0000
Subtotal (2003-2005)			42,985		45,208	1.1526
2006	92,829	15.82	14,688	15.82	14,688	0.0000
2007	90,508	15.82	14,321	17.07	15,453	1.2512
2008	88,246	15.82	13,963	17.07	15,067	0.0000
Subtotal (2006-2008)			42,972		45,208	1.2512
Total Rate Change						2.4038

Table 2 (Continued)
GAO/Postal Service Volume Scenario Applied to First-Class Letter and Sealed Parcel Subclass
Assuming Rate Changes in the Period 2003 through 2008

Fiscal Year	Forecast Volume of Letters & Sealed Parcels (Millions)	Before Rates: Contribution to Inst. Costs Per Piece (Cents)	Before Rates: Total Contribution to Inst. Costs ($ Millions)	After Rates: Contribution to Inst. Costs Per Piece (Cents)	After Rates: Total Contribution to Inst. Costs ($ Millions)	Unit Contribution/ Rate Change (Cents)
	(1)	(2)	(3)=(1)*(2)	(4)	(5)=(1)*(4)	(6)=(4)-(2)
2002	102,722	14.67	15,069	14.67	15,069	
Scenario 5: Six-Year Rate Cycle with Rate Increase in Sixth Year						
2003	100,154	14.67	14,693	14.67	14,693	0.0000
2004	97,650	14.67	14,325	14.67	14,325	0.0000
2005	95,209	14.67	13,967	14.67	13,967	0.0000
2006	92,829	14.67	13,618	14.67	13,618	0.0000
2007	90,508	14.67	13,278	14.67	13,278	0.0000
2008	88,246	14.67	12,946	23.27	20,536	8.6009
Total Rate Change						8.6009

Table 3

Assumptions Used In Analysis

First-Class unit revenue and cost for FY98, from PRC R97-1 Opinion, remain constant for the period 1999-2008.

First-Class variable costs and revenues change in proportion to volume.

Annual target institutional contribution for the period 2003-08 is based on projected contribution for 2002 of $15,069 million.

There is no shift of First-Class overhead burden to other subclasses.

Price elasticity effects are not considered.

Rates are set to recover target institutional contributions for each rate cycle ($15,069 million/year for 1, 2, 3, or 6 years).

Mr. MCHUGH. I thank the gentleman for his kind comments and the feelings are mutual.

We do have a request from two nonsubcommittee members, committee members who would like in; and the procedure we have followed in the past is to allow those folks, without objection, to have an opportunity to pose questions after the subcommittee members do. So we have Mr. Tierney from Massachusetts, and Mrs. Biggert has also suggested that she would wish to drop by.

So I would ask that, as we have in the past, those two full committee members be extended that courtesy after the presentations of our witnesses and the questioning by the regular members.

Without objection, so ordered.

With that, and all the niceties out of the way, let's kick some butt here. If you want to please rise, we will administer the oath.

[Witnesses sworn.]

Mr. MCHUGH. The record will show that all of the witnesses responded to the oath in the affirmative.

With that, as is our custom, I am happy to yield to the Postmaster General of the United States, Mr. William Henderson, for his testimony. Thank you for being with us.

STATEMENT OF WILLIAM J. HENDERSON, POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE

Mr. HENDERSON. Thank you, Mr. Chairman. I won't read my testimony to you. I will ask that it be introduced for the record.

But I would like to say that I appreciate your leadership. I think you have started a dialog on reform. Whether it is concluded this year or not, I think you will be credited with the vision that could have saved the Postal Service if it doesn't wait until a crisis occurs.

I agree with your assessment that these are troubling times. Affordability becomes more and more difficult as revenues soften, and affordability is the cornerstone of the Postal Service. Growth, just in this accounting period alone, which at the conclusion of the fiscal year was flat—there is no growth over last year. We estimate that we will miss the revenue plan by as much as $790 million under plan in revenue this fiscal year.

We are having to adjust our plans for the next fiscal year because of this softening in growth.

So the problem exists today, and the solutions of raising prices are just killing off the market. So we have to figure out something else to do, and that something else, I believe, starts with postal reform.

So I appreciate your leadership in that and I look forward to working with you as this Congress winds down.

[The prepared statement of Mr. Henderson follows:]

Statement of
William J. Henderson
Postmaster General and Chief Executive Officer
United States Postal Service
before the
Subcommittee on the Postal Service,
Committee on Government Reform, U.S. House of Representatives
September 19, 2000

It is a pleasure to be here. As always, I appreciate the opportunity to speak with the subcommittee about the performance, progress and prospects of the nation's mail system. I would like to begin today Mr. Chairman by thanking you for your leadership, vision, and plain old-fashioned hard work as head of the Postal Service subcommittee.

I am very much aware that at the conclusion of this Congress you may be moving on to new challenges and responsibilities in the next Congress. I wish you well, but I will be sorry to see you go. The Postal Service is at a critical point in its history. Few people understand this better than you. And no one has done more to try to ensure the future of this institution than you.

The world has changed dramatically since Postal Reorganization in 1970. Traditional competition is much more fierce. Technology has created alternatives to the Postal Service that are extremely challenging. And, leading foreign posts have been empowered by progressive governments that realize a contemporary postal model is needed for the fast-paced, rapidly evolving communications environment of the 21st century.

Over the past six years, this subcommittee, under your leadership, has completed the most thorough review of postal operations that could be imagined. Every conceivable postal constituency has presented its views. American consumers. Postal competitors. Major mailers. Foreign posts. Industry representatives. Postal employees. Experts from academia. Economists. Business professionals. Public administrators. In other words, every stakeholder has had a say.

In the end, you amassed a body of knowledge that resulted in a measured and balanced blueprint for reform – HR 22 – which would modernize the Postal

Service mandate and help to guarantee the continued viability of universal postal service and fair competition for all. It is a good bill that would benefit America, and the Postal Service supports its passage. However, with each passing day, the prospect of that occurring diminishes and the prospects for reform become more uncertain.

What is certain is that the need for reform will continue to grow. The technological, global, and commercial trends you have documented will not end with this Congress. A day will come when postal modernization will become reality for our nation as it has around the world. And it is equally certain that when reform comes, it will be built on the foundation that you and this subcommittee have so painstakingly constructed.

It is clear that the special interests and a lack of crisis have made the task of postal reform a tough one. So too has the excellent performance and resilience of the American postal system. It is understandable that some might think the United States Postal Service is immune to the changes that are sweeping through our industry.

A recent study by the International Communications Research group found that the American people continue to find great value in the mail. The study revealed that 42 percent of Americans strongly look forward to reading their daily mail. This was higher than the percentages recorded for personal phone calls, the daily newspaper, e-mail, and even television.

The study also showed that 66 percent of people believe that mail is the most private and secure form of communication. Eighty-seven percent say that it is more secure than e-mail. By a huge majority, Americans prefer that their confidential documents and personal messages come through the postal service and not the Internet. It is not even close.

These findings are a testament to the enduring strength and unique power of the mail. This is exemplified in what we call the mail moment. People look forward to the mail and when it arrives they give it their undivided attention. It is this anticipation and intense focus combined with the personal, portable, permanent

characteristics of hard copy that have kept the mail an important part of the American economy and the American lifestyle as we enter the 21st century.

The other part of the story is the high quality mail system that connects every home, farm, factory, business and institution into a universal delivery network. The Postal Service is the gateway to the American household. No other organization in America has the reach of the Postal Service. No other organization makes the house calls we do. No other organization handles the delivery volume we do.

Postal employees deserve a great deal of credit for making the whole thing work. Their dedication and professionalism are reflected in the record service and financial performances that we have recorded over the past five years. They are also acutely aware that our present position is extremely fragile, and that the future will be difficult. We are now in negotiations with three of our major unions. We regard this as an important opportunity to explore new and better ways to secure the future for them and for America's citizens. We realize that a motivated and properly aligned work force is our greatest strength. We will continue to facilitate their success.

It is also true that the Postal Service has some of the best business partners to be found anywhere. The American mail industry is the world's gold standard. The Postal Service could not have achieved the success it has had if it had not been for the considerable investments of time and capital made by America's professional mailers. I have just come from meeting with thousands of these mailers at the National Postal Forum in Anaheim, California, and I can tell you that their enthusiasm, expertise, and involvement is second to none.

Taken together, these factors explain why the American mail industry continues to perform at a high level despite its constraints. When combined with the dynamic, record-breaking American economy, they explain why the United States Postal Service delivers more than 40 percent of the world's mail with an unsurpassed combination of low price and quality service. Clearly, we have created and sustained the world's greatest mail market.

Given all of this, it might be expected that the Postal Service would be in a very secure position, particularly in light of the recent favorable business climate of

low inflation, high employment, and the longest economic expansion in American experience. Historically, these factors have delivered healthy increases in mail volume.

In addition, we have made a concerted effort to promote growth by increasing the value of the mail, introducing new services, and strengthening customer outreach. System improvements have lifted service to historically high levels, while the real price of postage has declined over the past six years, thanks to consecutive rate increases well below the rate of inflation.

Customer choice has increased. We have launched new services like delivery confirmation, signature capture, on-demand pick-up, and customized packaging. Innovative partnerships and alliances have allowed us to expand customer access and provide new, cost-effective mailing solutions like parcel select and Priority Mail Global Guaranteed. This is particularly important in the international arena and the domestic parcel market, where we have significant handicaps compared to foreign posts and commercial competitors.

Partnerships have also been critical, as we have responded to customer demand for eBusiness services. Last year, such partnerships enabled Americans to obtain postage over the Internet. This year, they've led to the introduction of Internet bill payment and message certification, as well as hybrid hard copy products for international and domestic needs.

The Internet has also quickly become an important business channel for many customers. Tens of millions of customers now rely on the Internet for ordering stamps, confirming important package delivery, and accessing ZIP Codes and other mailing information. Major mailers use the Internet and other electronic systems to schedule their mail shipments and verify the quality of service they are receiving. Progress also continues on the information platform, which will enable even greater customer access, assurance, choice and value.

In theory, we should be on top of the world. In reality, we are facing a world of competition. This includes new inroads from traditional competitors, a slew of start-up delivery firms associated with the Internet, liberalized foreign posts that

have opened offices in the United States and purchased American subsidiaries, and the accelerating growth of electronic alternatives to the mail.

Even with the strong economy, superior performance, and a revitalized focus on sales, we have experienced less growth than we ordinarily would expect. As a result, our success in meeting financial goals over the past few years has stemmed from relentless cost cutting. We have done this expertly and judiciously by reworking our processes, incorporating new technology, and cutting back wherever we could. This has included the deferment of beneficial improvements that we simply cannot afford under current circumstances.

This past year has been extremely challenging. Revenue growth is less than forecasted, perhaps as much as $800 million, while soaring fuel and workers compensation costs have added $500 million to our costs. In spite of that we have reduced our workhours to levels below last year and increased productivity resulting in savings of over $1 billion. Looking down the road, increased labor costs and rising inflation indicate that the financial challenges will continue.

The Postal Service has adopted three strategies to deal with these very tough competitive realities. Our first priority remains cost control, which is directly related to the affordability of the mail. This year, we have embarked on a multi-year Breakthrough Productivity Initiative that is designed to continue to take billions of dollars out of our cost structure. In the areas of transportation, purchasing, administration, and operations, we are reengineering work processes and employing technology to achieve savings and lower workforce needs.

We are committed to maintaining high customer service levels and minimizing disruption for employees as we go about this process.

Our second strategy is to increase revenues by helping our industry grow. As I have indicated, this is no easy job. Every product line faces competitive pressure. First-Class Mail is growing more slowly. For example, a recent report by the American Bankers Association shows that banks have reduced their mailings by 18 percent since 1996, which does not include their use of electronic banking. And, there are 30 percent fewer banks than there were 10 years ago. Moreover, the

Postal Service remains vulnerable to electronic bill presentment and payment. We cannot be certain of the timing and extent of this diversion.

Many of our costs are not volume variable, and costs associated with universal service will continue to rise as the American population increases. Each delivery day we add 5,600 deliveries, which amounts to 1.7 million deliveries per year, roughly equivalent to the number of deliveries in the City of Chicago. Sustained volume declines coupled with yearly delivery cost increases will require a major adjustment in the way we do business. As a result, we must act now to deal with growing cost pressures and a shrinking revenue base.

Our third strategy is the pursuit of legislative reform. I am convinced that partisan interests will not be allowed to shut our window of opportunity. A new mandate will be achieved so that America will retain its leadership among foreign posts, and we will preserve a healthy, universal postal system that touches every American, helps bridge our vast distances and differences, and binds our nation together. That is my belief. I know that it is your vision. We are committed to seeing it come to fruition.

Mr. Chairman, reform may not come on your watch. Such are the political realities of this complex issue. But I think it is safe to say that reform will arrive sooner and it will be more effective because of the groundwork of this subcommittee and your leadership. For that, we owe you a debt of gratitude.

Thank you, Mr. Chairman that concludes my statement.

# # #

Mr. MCHUGH. Thank you very much, Bill. I appreciate your brevity. That will give us more time for discussion afterwards.

We move to the Inspector General, Ms. Corcoran.

STATEMENT OF KARLA W. CORCORAN, INSPECTOR GENERAL, U.S. POSTAL SERVICE, ACCOMPANIED BY COLLEEN McANTEE, ACTING ASSISTANT INSPECTOR GENERAL FOR AUDIT

Ms. CORCORAN. Good afternoon, Chairman McHugh and members of the subcommittee. I appreciate this opportunity to discuss the accomplishments of the Office of Inspector General. Joining me today is Colleen McAntee, the Acting Assistant Inspector General for Audit. With your permission, I would like to submit my long statement for the record.

Mr. MCHUGH. Long. It was complete. I read it.

Without objection, so ordered.

Ms. CORCORAN. The Postal Service is challenged now more than ever to maintain its reputation for reliability. Although it faced challenges this year, the Postal Service also had many notable achievements, such as the Year 2000 Initiative. My office has identified over one quarter of a billion dollars in savings this year. In addition, our investigations have yielded 26 arrests, 11 indictments, 3 convictions, approximately $10 million in recoveries, and 35 contractor suspensions and debarments.

My testimony today will highlight work we have done over the past year to help the Postal Service meet what we believe to be its major challenges. We have examined relocation benefits paid to postal executives. Our first audit questioned whether the moves were in the best interests of the Postal Service.

Our second review questioned why the amount of miscellaneous expenses paid to executives was up to five times higher than those paid by comparable private companies.

In both reviews we questioned whether these relocation payments were used to augment the statutory pay cap.

We reviewed the external first-class mail measurement system. We found customers were not fully informed that on-time delivery scores did not measure postal-wide performance.

We investigated a major telecommunications contractor. Our investigation resulted in the Postal Service recovering $12.2 million in mischarges and avoiding up to $96 million in additional costs over the remaining life of the contract. We also identified $36 million in questioned contract costs with the assistance of a contract audit agency.

In a joint investigation, we found two postal managers were able to defraud the Postal Service of $3.2 million.

We reviewed the budget formulation process and found that it was difficult for the Postal Service to manage its program costs because accounting records only reflect expenses after they are paid at the program level.

Now I would like to turn to the important issue of labor-management relations. We were pleased that the Califano study referenced much of our work. We have continued the work that we discussed with you last year concerning postal implementation of the violence prevention and response programs by looking at the program in 26

district offices. In the area of workplace safety, we issued our first video report, which allowed postal management and the Governors to see firsthand the conditions of the facility.

Enhancing whistleblower protections within the Postal Service has been of interest to you, Mr. Chairman. The Postmaster General recently agreed with me that the protections provided by the Whistleblower Protection Act should be adopted in the Postal Service as a matter of policy.

In the area of technology, we salute the Postal Service's efforts to automate its processes. We believe this is a direction the Postal Service needs to go in the 21st century. Our reviews have been directed toward assuring that postal management has accurate and reliable information to base their decisions on technology investments. While the benefits of technology are enormous, proper computer security safeguards are extremely important.

In recent e-commerce testimony, we cautioned that the Postal Service needs to address lessons learned from more traditional programs, such as contracting, which could also affect the e-commerce area. We are working with the Postal Service to ensure that the OIG has appropriate access to information while recognizing the need for confidentiality.

As you know, our enabling legislation requires us to conduct oversight of the Inspection Service. One of the initiatives successfully completed this year was the revised designation of functions that generally provides that OIG will perform all audits and procurement fraud investigations within the Postal Service.

Now I would like to update the subcommittee on my office's progress.

We have worked to educate postal managers and other stakeholders about our mission and the importance of our independence in carrying out that mission. Therefore, we reacted quickly when changes were proposed by the General Accounting Office that challenged our independence. We voiced our concerns, and I am pleased to report that the Comptroller General recently advised me our office would continue to be viewed as organizationally independent.

Mr. Chairman, we are extremely proud of the diverse talent, skills and professional experience of our staff. Of the 660 individuals on board as of today, 50 percent are women and 48 percent are minority.

Mr. Chairman and Mr. Fattah, I would like to thank you for your support in establishing this office. I would also like to thank you and the Governors for recognizing the continued benefits of our work. The approval of our fiscal year 2001 budget will help increase our visibility to Postal Service stakeholders.

In closing, I would like to thank you for this opportunity to testify before the subcommittee. We will continue to assist the Postal Service, the Governors, and Congress by providing accurate information to help you make important decisions.

This concludes my statement.

Mr. MCHUGH. Thank you very much, Mrs. Corcoran. We appreciate it and appreciate all your work as well.

[The prepared statement of Ms. Corcoran follows:]

Statement of
Karla W. Corcoran, Inspector General
United States Postal Service
Before the
Subcommittee on the Postal Service
House Committee on Government Reform
September 19, 2000

I. INTRODUCTION

Chairman McHugh, Representative Fattah, and Members of the Subcommittee, I appreciate this opportunity to discuss the accomplishments of the Office of Inspector General and our contributions to the United States Postal Service during the past year. Joining me today is Colleen McAntee, Acting Assistant Inspector General for Audit. With your permission, I would like to submit my full statement for the record.

Mr. Chairman, I am proud to report that Congress' decision to establish an independent Office of Inspector General four years ago has resulted in a more effective Postal Service today—one that is much better prepared to succeed in the face of unprecedented competition. The Postal Service has worked for over two centuries to establish its trustworthy, reliable reputation, and it is challenged now more than ever to maintain that reputation while rapidly deploying new products and services to counteract decreases in First-Class Mail revenue and unexpected cost increases.

Although it faced unprecedented obstacles this year, the Postal Service also had many notable accomplishments. Its Year 2000 initiative resulted in a smooth transition to the 21st century—proof that it is capable of successfully overcoming technological hurdles. It expanded its traditional services to include a number of

new products and services that meet its customer's changing needs. The Postal Service successfully delivered 120 million pieces of misaddressed Census mail. It cut billions of dollars in operating costs. *Fortune* magazine named the Postal Service one of the top employers for minorities. And, perhaps most importantly, its service performance was outstanding—a poll shows that 9 out of 10 customers give the Postal Service high marks.

Our office has worked to help ensure that the Postal Service meets the challenges of the new electronic era, while at the same time maintaining the reputation that has made it an integral part of Americans' daily lives. Our reports and investigations have:

- Highlighted postal processes and systems in need of improvements.
- Uncovered illegal activities that affect postal operations.
- Identified ways to save costs and increase revenues.
- Helped bring to light issues that affected the workplace environment and thus, improved morale of the Postal Service's most crucial asset—its employees.

The tremendous progress we have made in our infrastructure this past year has allowed us to identify potential savings resulting in a projected return on investment of approximately four to one for this year. In addition, our staff has grown from approximately 400 to 660 employees, and we have established five additional offices around the country. This has allowed us to increase our visibility with stakeholders; extend our coverage of postal operations; and better provide Congress, the Governors, and postal management with independent and objective analyses.

Since our inception in 1997, we have issued over 500 products, with recommendations that could potentially yield monetary benefits of $1.4 billion, $260 million of this was identified in fiscal year (FY) 2000. In addition, since our inception, our investigations have yielded 42 arrests, 13 indictments, and

11 convictions; $13 million in recoveries; 36 contractor suspensions and debarments; and approximately $160,000 in fines and restitution.

My testimony will focus on the work this office has conducted to address the areas we believe are the Postal Service's major management challenges, our oversight of the Inspection Service, and our progress in establishing this office since my last testimony.

II. MAJOR MANAGEMENT CHALLENGES FACING THE POSTAL SERVICE

In order to help focus our resources, we with the aid of Postal Service management and stakeholders identified the top ten major management challenges facing the Postal Service. These challenges have been revised each year to address changes facing the Postal Service. Addressing these challenges have been key in planning the work for this office. Today, I would like to discuss these challenges, which have been condensed into the following four major issues:

- Growing revenues and competing in a rapidly changing market.
- Maintaining affordability by controlling costs.
- Improving the workplace climate and labor relations.
- Leveraging technology to enhance productivity.

The following sections discuss each of these challenges and the work that we have conducted over the past year. The work discussed in this testimony does not include Postal Service management comments or actions planned or taken. While we have been generally pleased with management's response to our reports, some of the work included in this statement contains outstanding disagreements. We plan to address outstanding disagreements during the audit

resolution process. In addition, we would be pleased to provide you with a copy of our FY 2001 performance plan upon completion.

A. Growing Revenues and Competing in a Rapidly Changing Market

Postmaster General Henderson reported that increasing competition from electronic commerce and other competitors has slowed the growth of postal revenue and is expected to have a continuing impact on the Postal Service's financial viability. Electronic commerce threatens to reduce First-Class Mail, putting at risk as much as $33 billion over the next nine years. In addition, foreign postal services have recently set up offices in the United States, siphoning away millions of dollars in outbound international mail. Consequently, the Postal Service is being challenged to find new revenue sources at the same time the Postal Service is being challenged to fulfill its core mission of delivering mail timely and improving customer service.

To assist the Postal Service with this challenge, we are assessing how the Postal Service maintains public trust, enhances core business processes to improve customer service, and develops new products and services to grow revenue.

Public Trust. The Postal Service values the public's trust it has established over the years, and therefore must assure that it operates in a manner that will maintain this trust and avoid negative public perceptions. Financial integrity and the integrity of Postal Service officials, systems, and the ratemaking process all impact this public trust, directly affecting the Postal Service's ability to keep and attract customers. We will highlight a number of reviews conducted in this area.

- Mr. Chairman, at your and the Governors' request, we conducted an audit examining relocation benefits paid to Postal Service executives. Our audit disclosed the Postal Service paid approximately $250,000 in relocation expenses to two senior Postal Service executives who moved about 20 miles,

with no change of duty station, and without sufficient documentation explaining why the payments were in the best interest of the Postal Service. In our report, we questioned whether relocation benefits had been used in these instances to augment the salary of these executives above the statutory pay cap. As a result of our report, the Board of Governors adopted a resolution requiring their approval of each component of compensation and benefits for postal executives, including relocation benefits. The resolution also stated that the Board shall, as appropriate, establish standards for deviation from the benefits program.

- Based on concerns raised in our first review, we conducted a subsequent audit, which disclosed the Postal Service paid its executives miscellaneous relocation expenses of $10,000 or $25,000 without requiring proof of expenses incurred. Through benchmarking, we found the amount paid to Postal Service executives was up to five times higher than those paid by comparable private companies. Again, we questioned whether these miscellaneous relocation payments were used to augment the statutory pay cap.

  We are currently reviewing other Postal Service relocation benefits, including equity loss payments, shared equity appreciation, and incentive packages. We will report our overall assessment of the Postal Service's relocation benefits at the conclusion of our work.

- Our efforts to support the annual financial audit of the Postal Service are significant. The Postal Service would rank in the top 10 of the Fortune 500 companies based on its revenues. Because of the size and complexity of postal operations, we have teams strategically located at three accounting service centers and headquarters to validate the accuracy and reliability of the financial information maintained in postal systems. As part of this process, we also review the controls over software and data security to

ensure the confidentiality and integrity of the data maintained on these systems. Although our FY 2000 financial work is not complete, we have identified instances of overpayments, weaknesses in internal controls, and security issues in the data processing systems.

- In our review of chauffeur driven vehicles, we found that some Postal Service executives improperly used postal vehicles and chauffeurs. The misuses were allowed to continue over an extended period of time because controls over vehicle use, such as daily logs, were either inadequate or nonexistent. Because the issues identified are potential violations of federal law, we believe stronger controls should be implemented to minimize the risk that vehicles could be misused, and to more easily identify misuse if it occurs.

- At your request, we reviewed the Postal Service's revenue assurance process. Our review disclosed that revenue deficiency assessments were not timely, mailers did not receive advance notice of deficiencies, and deficiencies assessed were sometimes due to incorrect information given by Postal Service personnel to mailers.

- We also conducted a review of the Postal Service's Economic Value Added Variable Pay Program.[1] Our review, which was based on Postal Service projections as of March 24, 2000, disclosed that the program payments have increased annually from 16 percent of net income in FY 1996 to an estimated 325 percent of projected net income in FY 2000. Postal Service management defends the program because they believe it forces productivity improvement. According to Postal Service management, productivity is at its highest level since 1992, which they use as an indicator that the program has produced the intended results. However, at a period of time in which the Postal Service may face a negative net income, has asked for a rate increase and is

[1] Economic value added variable pay is a group incentive based on an economic value added financial measure developed by the Postal Service.

reducing its workforce, payouts of this magnitude may be perceived negatively by postal stakeholders. We are continuing to analyze the economic value added formula and its application, as well as its effect on delivery of all services within the Postal Service. For example, we found international mail was not moved timely in part because managers did not place a priority on mail processing since it was not a program measurement.

- The manner in which the Postal Service establishes its rates is key to preserving public trust. Therefore, to better understand the responsibilities of the Postal Service, we issued a primer explaining the ratemaking process. We have been told by the Governors and others that this is an excellent tool for understanding the process.

- Our review of the Breast Cancer Research Stamp program determined that the Postal Service did not follow its own policy in recovering costs for this program. Therefore, money was contributed to the Breast Cancer Research funds that should have been used to offset costs of the program. As a result, ratepayers who purchased other postal products unknowingly contributed minimal amounts to the Breast Cancer Research funds. With the passage of the new legislation authorizing the Postal Service to establish additional semipostal stamps, we continue to be concerned that without proper controls the Postal Service will continue to pass the associated costs on to unknowing ratepayers.

- Our office conducted a joint investigation with the Inspection Service of a Postal Service Tort Claims Coordinator who fraudulently prepared, approved, and submitted vehicle accident claims. The employee was arrested for embezzlement after receiving over $67,000 in payments from the Postal Service.

Core Business Processes and Customer Service. To provide world-class service, the Postal Service must excel in performing its core business processes, which include accepting, processing, transporting, and delivering the mail. Each day, Americans send over 650 million pieces of mail through the Postal Service expecting it to be processed timely and accurately. The Postal Service must accomplish this to assure that customer service does not suffer. Therefore, the Postal Service must ensure it has appropriate performance measures for monitoring the acceptance, processing, transportation, and delivery of the mail. Recent media coverage has emphasized that customer service can suffer when appropriate controls are not in place. Some of our more significant reviews are highlighted below.

- At your request Mr. Chairman, we are conducting a review of certified mail delays in California, Connecticut, Delaware, Illinois, and New York. Preliminary results confirmed that certified mail was delivered late in 4 of the 5 locations and generally exceeded delivery standards by at least 10 days during the tax season. In Illinois and Connecticut, we noted that delays were still occurring. We also found that late mail was primarily attributable to inadequate planning, staffing, and supervision of mail processing operations. Based on our work in other areas, we believe inadequate staffing occurred because managers tried to keep overtime to a minimum to meet Economic Value Added goals that drive their cash awards. In addition, in some cases, mail arrived late due to transportation delays. Delays went undetected because of the lack of a standard system to report certified mail

- We conducted reviews to verify allegations that mail service had deteriorated. At one location in the Mid-Atlantic Area, we found approximately 1.2 million pieces of Standard Mail that was up to a week late. In another location in the Pacific Area, we found over 200,000 pieces of delayed and unprocessed international mail, some of which was over three weeks old. And in the Southwest Area delivery units, we found approximately 75,000 pieces of

unprocessed mail including time sensitive materials such as tax documents and medical information. In each instance, after we notified Postal Service management, they took prompt action to reduce unprocessed and delayed mail.

- The Postal Service could not identify the causes of late mail or the timeliness of mail movement because the air carrier performance system was inadequate.

- We determined that the Postal Service had accepted over 21,000 delivery vehicles under a $441 million contract, even though the fuel pumps on the vehicles failed within 100 hours when used with ethanol fuel.

- Our review found that the External First-Class Measurement System was not a representative measure of system-wide performance and delivery of First-Class Mail. Further, customers were not fully informed that on-time delivery scores did not measure postal-wide performance.

New Products and Services. The Postal Service and its customers face the necessity to adapt their business products and services to survive in a constantly evolving market place. In addition, many new products and services introduced by the Postal Service are designed to generate revenue. However, in many instances, competitors and others have questioned whether it is appropriate for a government entity with monopoly protection to provide nontraditional products and services in competition with the private sector. We are highlighting two reviews in this area.

- We reviewed the Delivery Confirmation Program, a tracking service similar to those already provided by competitors. Our draft report identified that the Postal Service did not consistently provide accurate delivery status.

Providing inaccurate information could result in a loss of business to competitors.

- Our report on a major Internet service initiative for bill presentment and payment, projected to generate over $1.4 billion in revenue between FY 2001 and FY 2005, identified several issues related to the security over eCommerce and Privacy Act data. Future reviews will assess the PC Postage and Stamps Online products.

- In a recent review, we found that Postal Service officials believed they had lost the opportunity to generate at least $25 million in revenue from a major Internet retailer because they could not provide volume discounts and credit flexibility requested by the company. Our draft report concluded that while the Postal Service did not have the same commercial freedoms as its competitors, it had not used existing authority to request discount and credit flexibility from the Postal Rate Commission.

- We reviewed the Sales Force Augmentation Program, a major revenue initiative projected to generate over $690 million in revenue between FY 2000 and FY 2002. Our draft report disclosed that, due to a lack of management controls, $30.4 million in revenue reported by a contractor's sales personnel could not be verified. As a result, the Postal Service paid the contractor $5.2 million based on unverified sales.

B. Maintaining Affordability By Controlling Costs

With over $60 billion in operating expenses each year, the Postal Service needs strong management controls to mitigate historic trends that drive rate increases and ensure its ability to provide universal mail service at affordable rates. Controlling costs requires strong contract administration, effective program oversight, and sound budget processes to make informed decisions.

Contract Administration. In FY 1999, the Postal Service contracted for $9.1 billion in supplies and services, equipment, transportation, and facilities. To assure strong contract administration, the Postal Service needs to monitor its contracts to assure that work is performed, validate contractor charges for services rendered, ensure proper controls, and oversee contractor activities. The Postal Service is one of America's largest owners, developers, and managers of real estate, holding over $20 billion in real property. In addition, the Postal Service committed over $1.6 billion in repair, renovation, and new construction of facilities, and paid over $727 million in rent in FY 1999. Our more significant reviews and investigations in this area are highlighted below:

- An investigation of a $3 billion telecommunications contract and the contractor's accounting and billing process resulted in the Postal Service recovering $12.2 million because of outage credits[2] and overcharges, and costs for substandard and defective materials and incomplete work. Postal Service management agreed to establish controls to avoid up to $96 million in overcharges for the remaining eight years of the contract.

- For a portion of our contract audit work, we used the Defense Contract Audit Agency to assist in determining fair and reasonable contract prices, the adequacy of contractor accounting, estimating and billing systems, and whether payments to contractors were only for allowable and actual costs. As of September 12, 2000, 60 contract audits have been completed, which questioned a total of over $36 million in costs. This includes questioning over $11 million in contract costs of a major mail processing equipment manufacturing contractor because the contractor's estimating system and procedures were not adequate for preparing accurate cost proposals.

[2] Outage credits are amounts due to the Postal Service because of system failures.

- An ongoing review of mail transport equipment services contracts disclosed that the Postal Service had awarded three noncompetitive contracts to a contractor at a price which was $53 million more than that charged under contracts that were competitively awarded.

- Our draft report on facilities construction contracts disclosed the Postal Service had incurred $19 million in excess costs on 11 of 33 contracts because it had not adhered to industry standards related to contract modification costs.

- As a result of joint investigations, in this fiscal year, 36 Postal Service contractors have been suspended or debarred.

- At the request of Representative Fattah, we conducted a review of opportunities for minority contractors to participate in advertising contracts. Our review resulted in the Postal Service requiring its primary advertising contractors to prepare subcontracting plans, which will increase opportunities for minority contractors to compete for $150 million in Postal Service advertising contracts.

- In the environmental area, we found the Postal Service paid a contractor $869,000 for removal of asbestos at approximately 186 postal facilities. Our investigation determined that the work was incomplete and the Postal Service is seeking recovery of overpaid funds and completion of asbestos removal.

Budget Processes. A sound budget process enables an organization to effectively plan and allocate resources. A well-planned budget also functions as a tool for management to monitor how well an organization performs when compared to initial strategic plans and goals. During our budget and performance reviews, we found that the Postal Service did not always effectively

plan, control, and allocate organizational resources to invest in and support the Postal Service's goals.

- The Postal Service surpassed its goals to reduce its budgeted and actual expenses by about $675 million through reductions in headquarters programs to preserve financial goals for FY 1999. However, we found that the Postal Service reduced expenses without considering the long-term strategic impact on programs and operations, including its potential impact on the FY 2000 net income.

- The Postal Service's FY 2000 budget formulation process was generally effective in allocating funds for functional area programs and operations. However, budget estimates were not based on current and complete analyses and may not have been sufficient to fully support the Postal Service's strategic goals, including those for reducing costs and increasing revenues. In addition, it was difficult for the Postal Service to manage its program costs because the accounting records only reflect expenses when they are paid. Therefore, managers do not have a real time picture of their finances. While management has not formally responded to this draft report, we believe implementing an accrual accounting system is imperative to the Postal Service having an accurate picture of its financial position.

- We have consistently found that inadequate budget planning is an issue in other program areas such as Year 2000 (Y2K), computer security, and automation. For example, in our draft report, we found that at 24 of 42 facilities, tray-feeding mechanisms needed to operate the robotics tray handling systems were not installed because engineering had not included funds to install this equipment in the original funding request. As a result, Postal Service has not realized the full benefits of this system.

Program Oversight. Because the Postal Service must ensure each of its products is cost beneficial, effective program oversight to control costs is essential to ensure all operating costs are captured for each program and matched against related revenue. A particular concern of ours is the potential for false claims, double billings, and collusion between doctors, other medical providers, and postal employees. The following are examples of reviews addressing how more effective program oversight could have controlled costs.

- An audit disclosed the Postal Service could have avoided $23 million in repair expenses if a required detailed engineering study had been conducted prior to the purchase of a building. Instead, because they perceived a need to quickly purchase a building, Postal Service officials allowed a less extensive visual inspection to be conducted. As a result, major deficiencies in the building were not detected, which require extensive repairs.

- A draft report on the Kansas City Stamp Fulfillment Center disclosed that the Postal Service could increase revenues by $6 million per year by charging the full rate of shipping philatelic stamps and related products.

- Our review of air carriers disclosed that in FY 1999, $5.6 million in ground handling services was being paid to air carriers for work performed by Postal Service employees. The Postal Service has an opportunity to save approximately $28 million over the next five years by adjusting the contract rate.

- A Bulk Mail Center review in the Southwest Area found that the Center was paying for unnecessary highway trips because trucks were not fully loaded. Further, the Center was charged $5 million in extra trip expenditures, which it could not control because the trips were authorized by other facilities.

- Our review of a Postal Service Carrier Annex confirmed an allegation that the Postal Service entered into a $4.2 million, 20-year lease of a 30,000 square foot building, which had remained vacant for almost two years. Postal Service management agreed to sublease the building, which would allow them to save up to $2.4 million.

- At the request of the Chairman of the Board of Governors, we reviewed selected controls over the disposal of inventory valued at about $16 million at a large postal facility. Our review disclosed that an inventory of all property had not been conducted since 1990 even though the operation moved during this time and postal policy required management to conduct a full inventory every five years. Therefore, Postal Service management could not confirm that all property was properly accounted for, disposed of, or transferred. Even though this was only at one center, we are concerned that similar problems may exist at other facilities. Therefore, we plan to consider this issue for a systemic review in FY 2001.

- Because of insufficient program oversight, two postal managers were able to carry out an elaborate scheme to defraud the Postal Service. The scheme involved the managers conspiring with Postal Service contractors in funneling bogus invoices and bills through them for services and supplies not received. The employees used the money to buy real estate, a boat, fine jewelry, and deposited the rest into investments and foreign bank accounts. This joint investigation with the Internal Revenue Service and the Inspection Service has resulted in the identification of fraud in the amount of approximately $3.2 million. Thus far, our office has successfully recovered $397,000.

- We worked a joint investigation with other Federal law enforcement agencies, which resulted in an Oklahoma-based physician billing company and its founder agreeing to pay the government and 28 states $15 million as

settlement for false billings to various government programs. The Postal Service recovered $155,500 from the settlement agreement.

- During the investigation of a health care provider for alleged double billing, the OIG found several overpayments were made to a former postal employee who was receiving disability compensation. We requested that the Department of Labor credit the Postal Service for the $25,000 in overpayments.

- As a result of a joint task force investigation, a search warrant was executed and an individual was arrested for defrauding Federal Employees Health Benefit Program. The scheme involved the diversion of expired and substandard drugs to health care providers, thus endangering the health and well-being of Postal Service employees.

- An OIG-led task force initiated a joint investigation into fraudulent billing of medical claims by a medical provider. The provider was fraudulently billing medical clinics for services not rendered to the Postal Service and state employees under the Workers' Compensation Program. Since December 1998, the provider billed the Postal Service for over $400,000 in medical services.

C. Improving the Workplace Climate and Labor Relations

With approximately 800,000 career and 100,000 non-career employees, improving workplace relations among labor, management, and the unions and associations that represent them, the Postal Service has characterized labor management relations as one of its most important challenges in achieving its goals in the 21st century. To operate effectively in a rapidly changing environment, the Postal Service has recognized that it will need to give employee issues a higher priority and enhance each employee's contribution to

organizational performance. Because of the importance of labor management relations on postal operations, the Postal Service has developed numerous initiatives and programs focused on reducing conflict in the workplace and improving the effectiveness of procedures to resolve disputes. In addition, established channels, such as grievance and arbitration procedures and the Equal Employment Opportunity process, are available to help resolve Postal Service employees' complaints. The OIG is also working with Postal Service management to ensure that Postal Service employees are afforded the same whistleblower protections as provided to other federal employees.

As you know Mr. Chairman, since the inception of the OIG, we have been working with the Postal Service and Congress to address these issues. However, adequately addressing labor management relations continues to be one of our toughest areas. To date, we have received over 2,800 individual labor management complaints, including approximately 500 that we received from Representative Fattah in July 1998. Because of the emotional involvement, potential financial impact, and the length of time to resolve these issues for the employee, management, and Postal Service, it is important that our involvement in this area be meaningful and positive. Therefore, the approach we have developed to deal with the sheer magnitude of complaints is to step back and focus primarily on systemic issues and conduct postal-wide reviews. These reviews are designed to identify and prevent potential problems that can detract from a healthy and productive work environment.

Federal Inspectors General typically perform programmatic and operational audits. To our knowledge, we are the only Inspectors General office that has a dedicated workforce reviewing labor management relation issues. Most individual labor management complaints do not focus on programs and operations but on personal concerns. Therefore, we usually do not review individual complaints unless they involve potentially violent or other egregious situations. However, if there is a substantial number of individual complaints at a

particular facility or location, we will conduct a review to assess the workplace climate. Individual complaints also provide us with extremely valuable information that we can use to identify postal-wide issues and plan reviews that address these issues on a systemic basis.

We have continued to receive a number of individual complaints that Members of Congress have asked us to address for their constituents, who are Postal Service employees. While we are very interested in being responsive and helpful, we simply do not have the staff to always address each of these individual complaints nor do we believe it is within the mission of this office as constituted under the Inspector General Act.

With our system of evaluating the individual complaints and planning our systemic reviews as well as our efforts to increase staff, we are now beginning to see the results of our systemic work in the areas of violence in the workplace, workplace climate, and the Postal Employees Safety Enhancement Act. Responding immediately to allegations of violence in the workplace is a major initiative within the OIG because over the past decade, highly publicized incidents of workplace violence have increased concerns about the Postal Service's ability to maintain a safe and healthy workplace environment for its employees. Likewise reviewing workplace climate concerns, such as managerial behaviors including harassment and intimidation, has been a major initiative within the OIG to assist Postal Service management in improving the workplace and thus, increasing morale and productivity. Third, we are evaluating whether Postal Service employees are working in a safe and healthy environment.

The OIG has conducted 55 reviews and completed 52 congressional responses in the area of labor management relation, some of which are highlighted below.

Violence in the Workplace. A study[3] commissioned by the Postal Service reported that Postal Service employees believe they are at greater risk than the average worker to be a victim of workplace violence. However, the study also concluded that Postal Service workers are no more likely to be victims of violence than employees in the national workforce. This study was commissioned because the Postal Service recognized that signs of workplace stress were present and comprehensive steps were needed to improve the workplace environment. We worked with the Commission during this study and provided them with information and other assistance as requested. This study reinforced and referenced many of our findings and recommendations made to prevent violence and improve the work environment.

We have continued the work that we discussed with you last year concerning Postal Service implementation of the Violence Prevention and Response Programs. Specifically, we have looked at the program criteria and its implementation in 26 district offices in five postal areas. Generally, our draft reports disclosed there is a potential for violence to occur because districts have not fully implemented violence prevention strategies to prevent violence from occurring. For example, on case management of threats, 21 of the 26 districts did not fully monitor individuals who made the threats through resolution or engage in case management of all threats. Also, none of the 26 districts monitored and evaluated climate indicators to identify and followup on events that could escalate the potential for violence. Other issues included orientation training for the threat assessment core team members and violence awareness training for all Postal Service employees.

Workplace Climate. While the Postal Service's study focused on violence in the workplace, it did identify that postal employees have more negative attitudes than employees do in the national workforce about work, coworkers, and

[3] Report of the United States Postal Service Commission on a Safe and Secure Workplace, August 2000, prepared by the National Center on Addiction and Substance Abuse at Columbia University.

management. These negative attitudes may contribute to some of the perceptions surrounding workplace climates. However, our work has indicated that in many instances, managerial behaviors have resulted in lower morale. A recent congressional complaint, one of the most egregious examples we reviewed during this past year, contained allegations from 32 postal employees regarding harsh working conditions and abusive management styles at a postal facility. We confirmed the existence of a confrontational and hostile workplace climate including inappropriate communication styles, verbal abuse, and aggressive management practices. While our OIG staff was present in the facility, we observed management yelling at a craft employee. In addition, while our staff interviewed the manager of the facility, he played with an empty bullet casing, which our staff believed may have been done in an attempt to intimidate us during our interview. We immediately conveyed our observations to senior management officials who agreed to take corrective action and inform us in writing.

Postal Employees Safety Enhancement Act. Two years ago, this Act was passed to include the Postal Service under regulations that provide for sanctions for safety and health violations, the same as those imposed on private employers. This past year, fines have started to be levied against the Postal Service for violations of the Act. Our work in this area is to mitigate the likelihood of the Postal Service being fined for violations and to assure that the working conditions do not negatively impact the organizational climate and postal operations. Specifically:

- We validated allegations of unsafe working conditions in a Southwest Area facility, where both area and district management officials had known for the past 14 years of the deteriorating conditions and potential safety hazards. This work resulted in our first video report. The video allowed Postal Service management and the Governors to see first-hand the deplorable conditions. As a result, management moved employees to a temporary facility and

approved a $5 million renovation of the facility to correct the unsafe conditions.

- We confirmed an allegation that a Western Area facility manager ordered the use of a copper tube in place of a fuse to keep machinery running, directly exposing employees to hazardous working conditions. Our draft report disclosed that management chose to use an unsafe means of keeping the machinery going rather than other acceptable alternatives.

Whistleblower Protection Act. The Whistleblower Protection Act provides employment protections to most non-postal federal employees who disclose information pertaining to a violation of law, gross mismanagement, gross waste of funds, abuse of authority, or substantial and specific danger to public health and safety. We recognized that labor management relations can be enhanced and employee morale improved if Postal Service employees have a venue where they can present their grievances and report wrongdoing without fear of reprisal. Since our inception in 1997 and at your urging, we have continued to have discussions with Postal Service management about enhancing whistleblower protections within the Postal Service. The Postmaster General recently agreed that the Whistleblower Protection Act should be adopted in the Postal Service as a matter of policy. We have been meeting with Postal Service officials and have outlined a strategy to ensure that the Whistleblower Protection Act is adopted as postal policy. We will notify you upon completion of this plan and when it is fully adopted.

To address Postal Service challenges, the Postal Service must give labor management issues more visibility. We will continue to work with management and to consult with labor officials to ensure our reviews are pertinent and that our recommendations are appropriately addressed. In addition, we will assess the study commissioned by the Postal Service to determine what actions we need to

take to help the Postal Service achieve its goal of making its offices and facilities a safe and healthy work environment for its employees.

D. Leveraging Technology to Enhance Productivity

The Postal Service is seeking ways to leverage technology to improve its service, productivity, and profitability. While it depends on technology to deliver more than 650 million pieces of mail every day, the Postal Service must continue to adapt to each new wave of technology quickly to maintain its competitive position in the market. The unprecedented growth in computer interconnectivity and Internet usage is revolutionizing the way the nation communicates and conducts business, and is reshaping customer expectations.

To address these technology challenges, the Postal Service plans to invest approximately $17 billion through FY 2002 on capital investments, which includes a majority of technology investments. These investments are intended to automate and modernize mail processing and acceptance, enhance communications and access to information, and extend the postal infrastructure to better support core business processes and electronic products and services. In addition, the Postal Service continues to focus on eBusiness and computer security to protect these investments.

In the last 18 months, we have been asked to testify twice before Congress on technology issues within the Postal Service. Our first testimony was on the Postal Service's progress on Y2K before the Subcommittee on Government Management, Information, and Technology and the Subcommittee on the Postal Service, House Committee on Government Reform in February 1999. In this testimony, we stated the Postal Service had much work to do in order to be ready for the Year 2000. However, Mr. Chairman, my testimony today would be incomplete if I did not mention the success achieved by Postal Service management in meeting the Y2K challenge. The Postal Service successfully

deployed software and hardware solutions, prepared a comprehensive monitoring program for the Y2K rollover, and eventually had a successful finish. All of this can be attributed to the hard work of a very large, very dedicated team of professionals and I am proud to say that your committee's oversight and the OIG's work were instrumental to that success. The Postmaster General himself acknowledged the contributions of our organization when he commented that ". . . the OIG played a major role in our being successful in Y2K . . .."

Just this month, we provided testimony on eCommerce before the Subcommittee on International Security, Proliferation, and Federal Services, Senate Committee on Governmental Affairs. This testimony recognized that only since completion of Y2K have we started focusing on the eCommerce area. We cautioned that the Postal Service needs to address lessons learned from more traditional programs that could also affect the eCommerce area. These areas included: organizational structure, planning, budget practices, systems development, contracting, and computer security.

The following highlights work we have done in the developmental technology, computer security, and eBusiness areas.

Developmental Technology. We salute the Postal Service's efforts to automate its processes and we believe this is the direction the Postal Service needs to go in the 21st Century. Our reviews have been directed towards assuring that Postal Service management had accurate and reliable information to base their decisions on technology investments. For instance:

- We reported that the Tray Management System, designed to automate the staging and movement of mail in processing and distribution centers, would not achieve the return on investment projected. Also, we estimated the Postal Service would incur at least $27.9 million more in costs for labor and operations disruptions than the $136.4 million originally projected.

- We issued four reports on the $1 billion Point of Service ONE system. This system is intended to improve customer service, replace retail terminals, and provide more complete and timely accounting of postal financial operations at each location. Although the Postal Service has made progress in developing, deploying, and improving the Point of Service ONE system, we found the system was deployed prior to meeting all initial contract requirements and achieving the functionality originally envisioned. Also, we expressed concerns regarding the increased risk of loss of accounting data that could negatively impact operations.

- We reviewed the Mailing Evaluation, Readability, and Lookup Instrument ("MERLIN") system, designed to automate the acceptance and verification of bulk business mail, and determined that the system should be generally successful and provide a consistent and reliable technology for mail acceptance. However, we believe improvements are needed in weight measurement accuracy, indicia recognition, and address recognition and evaluation, to avoid erroneous reporting and the loss of postal revenue.

Computer Security. Greater connectivity through the Internet also poses significant security risks to Postal Service computer systems and critical operations they support. In addition, many electronic commerce initiatives involve business partnerships with service providers, meaning each partner is impacted by the other, particularly in the area of security controls. Another emerging security issue is the ability of a business to protect the integrity and privacy of data stored and collected on their client population, including financial information and other data, which profiles their purchasing habits, viewing preferences, and surfing choices. Thus, while the benefits of technology are potentially enormous, the need for proper safeguards to protect the Postal Service and its partners' assets as well as those of its clients is equally important.

- During the last two years, the Postal Service awarded a number of contracts for a series of computer security reviews. These reviews identified significant issues pertaining to security awareness, network security practices and procedures, computer intrusion detection, and staffing for computer security. However, our review of Postal Service management's actions taken in response to these contractor reports indicated that the Postal Service had not taken action on a number of the contractor's recommendations.

- Our draft report on computer security in the Postal Service indicated the need to develop a more comprehensive, integrated computer security program and make computer security a higher priority. We also found that Postal Service managers need to recognize their responsibilities for computer security, and place more emphasis on planning and budgeting for computer security. Further, Postal Service policies and procedures for computer security need to be developed, implemented, and kept current. In addition, the office responsible for computer security policymaking needs to be elevated within the Postal Service, properly staffed and funded, and given authority over computer security compliance. Finally, we identified technology-related staffing issues involving the lack of background clearances and experience levels, and the difficulty in attracting and retaining qualified security personnel because of salary constraints. Subsequent to the completion of our audit work, the Chief Technology Officer indicated that a comprehensive plan had been developed to enhance and strengthen all aspects of information security. We will be monitoring the Postal Service's efforts with regard to implementation of that plan.

- As the Postal Service provides greater access to its automated systems, these systems become more susceptible to cyberattacks. In order to help the Postal Service address the technology security challenge, we assisted Postal Service officials in identifying and installing a computer intrusion detection system. We have responded to cyberattacks on Postal Service websites and

computer networks and helped the Postal Service develop an action plan for vulnerability scans and penetration test systems.

eBusiness. Electronic commerce presents opportunities for the Postal Service to enhance customer service, increase operational efficiencies, streamline business processes, and provide avenues for new revenue. At the same time, electronic commerce threatens First-Class Mail volumes. The Postal Service is leveraging its traditional strengths—universality, affordability, innovation, and trust—with the power of today's technology to add new revenue sources and provide systems and services to meet supplier and customer needs. We have conducted four reviews in the electronic commerce area, highlighted below.

- Our draft report on the Postal Service's interim electronic commerce organization disclosed that electronic commerce responsibilities were fragmented among several senior managers, and that senior managers' mainstream functions were commingled with electronic commerce functions. We believe that a single focal point may help ensure a comprehensive, integrated electronic commerce implementation plan and a more efficient use of resources. The Postal Service has subsequently created a new corporate-level group to identify, develop, implement, and invest in new business opportunities and has established the eBusiness Opportunity Board for consideration and review of new eBusiness ideas.

- As mentioned in the New Products and Services section, our draft report disclosed that the Postal Service was able to meet the mailing requirements of one of its largest Internet mailers but was unable to meet the special financial terms requested without approval of the Postal Rate Commission. In addition, once this Internet mailer opted for better financial terms with a postal competitor, we made recommendations to Postal Service management that would save approximately $5 million by eliminating excess operating capacity and unnecessary transportation costs.

- We reviewed five PC Postage and eBillPay private sector agreements with the Postal Service and found these agreements did not provide adequate access to information maintained by commercial partners. As a consequence, contractors may resist Postal Service program mangers' attempts to review contract issues, including billing practices and computer security. For example, one postal agreement specifically prohibits the Postal Service and purportedly the OIG—from discussing alleged crimes committed under the contract with the Department of Justice, without prior approval of the contractor. This area is of particular concern to the OIG because of our need to perform audits or investigations and fulfill the requirements of the Inspector General Act. Senior Postal Service management recognizes that the OIG has access rights in these agreements. Therefore, we are working with Postal Service management to ensure that specific contract language spelling out OIG access rights will be used in contractual agreements.

- Likewise, as we mentioned in the New Products and Services section, USPS eBillPay, the Postal Service online bill presentment and payment service, was launched, in part, to offset the loss of mail volume from bills, financial statements, and payments being diverted from hard-copy mail to the Internet. This program has the potential to be a significant revenue generator for the Postal Service. We reviewed USPS eBillPay to determine if it met privacy and security requirements before bringing the system online. Our review disclosed that the Postal Service needs to adjust its policies and procedures to meet the needs of electronic commerce partnerships and alliances, and better address computer and network security and privacy issues.

III. INSPECTION SERVICE OVERSIGHT

Our enabling legislation requires us to conduct oversight of the Inspection Service in addition to our audit and investigation responsibilities. As a law

enforcement agency, it is essential that the Inspection Service be held to the highest standards of conduct to maintain the public's trust and the Postal Service's reputation of reliability. The Inspection Service and the OIG are still struggling with our new roles. While many initiatives have been successfully concluded, such as the revised designation of functions, other issues continue to be unresolved. We are continuing to work with the Chief Inspector and senior Inspection Service management to resolve these and other issues and to increase the degree of trust, respect, awareness, and cooperation between the two organizations.

The following sections discuss recent changes to the alignment of functions between the Inspection Service and the OIG as well as the oversight work done by the OIG.

Designation of Functions. The original Designation of Functions, which delineated the major audit and investigative responsibilities between the OIG and the Inspection Service, was approved by the Governors in March 1997. After operating under this designation for three years, both organizations concluded that refinements were necessary to more clearly distinguish responsibilities and more effectively utilize resources. In addition, the revision was needed because the Inspection Service divested itself from performing audits of Postal Service programs and operations, based on an OIG audit.

We jointly presented proposed revisions to the Governors who approved a revised Designation of Functions in April 2000. Under the revised Designation of Functions:

- The OIG will perform all audits within the Postal Service, and the Inspection Service will discontinue performing audits;

- The OIG will investigate all procurement fraud within the Postal Service, and the Inspection Service will discontinue procurement/expenditure investigations except cash and money orders; and

- The OIG will investigate thefts of postal funds resulting from improper expenditures, including compromise of program integrity, and the Inspection Service will conduct all revenue investigations and embezzlements where there is no formal contract and payments are made in cash and money orders.

At your request Mr. Chairman, we obtained the Inspection Service's agreement on a notification protocol that provides us with a basis to actively monitor internal investigations of Level 15 managers. In addition we have taken steps to develop more effective communication with the Inspection Service to include monthly meetings between our senior staffs to discuss emerging issues and to clarify concerns. We are also working together to establish guiding principles for conveying information related to investigations and reviews. Further, we hope to have agreement within the near future as to what constitutes significant activities and events that must be reported by the Chief Inspector to the Inspector General as required under the Inspector General Act.

Oversight Reviews. Some of our significant reviews found:

- Senior forensic scientists at the Forensic and Technical Services Division lacked parity in salaries when compared to their federal counterparts. The lack of parity in salaries has affected the Inspection Service's ability to recruit and retain qualified senior forensic scientists.

- Personnel did not always have the appropriate security clearances because Postal Service managers and human resources personnel each assumed the other had the responsibility for determining security clearance levels for non-

Inspection Service employees. In addition, guidance did not exist to identify how appropriate clearance levels should be determined.

- In a draft report, we reported that Inspection Service management did not link FY 2000 budget resources to performance goals and did not prepare a strategic plan and annual performance plan in accordance with the Government Performance and Results Act of 1993. In addition, the Inspection Service did not establish a process for annually determining personnel requirements and for allocating these resources by location. This could negatively impact the Inspection Service's ability to provide an appropriate level of service to its customers.

- There may be a perception that the Inspection Service Disciplinary Process and Awards Program are not consistently and fairly administered. Specifically, in a draft report, we reported that for the disciplinary process, internal investigations were conducted by field inspectors in the same divisions as employees being investigated, and potential violations of the Inspection Service Code of Conduct were not always reported to headquarters, as required. In addition, we could not document the extent of headquarters oversight of internal investigations assigned to field inspectors.

  Further, in a draft report looking at the awards programs, we found approval levels for inspector awards were inconsistent with the awards programs of the federal law enforcement agencies surveyed, the types of actions used to justify cash awards varied throughout Inspection Service divisions, and some cash award justifications did not clearly identify the purpose for the award. In addition, we could not determine whether cash equivalent and non-cash tangible awards valued at over $50 were reported to the Internal Revenue Service, as required.

IV. OFFICE OF INSPECTOR GENERAL PROGRESS

Since my last testimony, we have made significant progress in ensuring that the public's perception of our independence is maintained; clarifying our responsibilities with the Inspection Service; developing a more efficient audit resolution process; and building our infrastructure to better serve the Postal Service, the Governors, Congress, and the public.

It is vital that our stakeholders and the public recognize that we are an independent office. If we are not perceived as being independent, our ability to carry out the mission envisioned by Congress when it established the Inspector General Act is severely diminished. As you are aware, the primary purpose of the Inspector General Act was to establish independent Inspectors General to conduct audits, investigations, and reviews of federal government programs and operations in order to identify and deter fraud, waste, abuse, and mismanagement. As an independent office, our mission is to ensure that Government agencies serve their customers and carry out their work efficiently, effectively, and economically.

We have worked to educate Postal Service managers and other stakeholders about our mission and the importance of our independence in carrying out that mission. Therefore, we reacted quickly when, in February, the General Accounting Office issued an "Independence Preliminary Views" document for comment. This document proposed changes to generally accepted Government Auditing Standards. According to the proposed changes, Inspectors General who are appointed by an agency heads would not be considered organizationally independent, and their reports would be required to identify their lack of independence. Thus, despite the independence provided by the Inspector General Act and its provisions, these proposed changes could leave our stakeholders and the public with the perception that our office is not independent.

If the changes were incorporated, Postal Service managers, the Governors, Congress, and the public could question the credibility and effectiveness of our reports.

After the Preliminary Views document was issued, we voiced our concerns with the General Accounting Office, Congress, and other members of the federal and non-federal audit community. We obtained an independent legal opinion and provided written comments to the General Accounting Office. I also met with the Comptroller General in July to discuss the proposed changes and the detrimental effect they might have on how our work is perceived. I am pleased to report that our efforts were rewarded, and that the Comptroller General recently advised us that our office would continue to be viewed as organizationally independent.

Audit Resolution. Since my last testimony, we have made progress in fostering communications between our office and the Postal Service in order to increase the timeliness and effectiveness of our reports. This year, the Governors approved a three-step audit resolution process designed to resolve disagreements between Postal Service management and the OIG over recommendations in our reports. The process serves as a vital mechanism for ensuring that disagreements are resolved on a timely basis at the appropriate level of management. Unresolved recommendations are elevated to progressively higher levels of management within the Postal Service. We are working with Postal Service management to review all unresolved issues to identify recommendations and suggestions that are subject to the resolution process.

Peer Review. We recognize the importance of adhering to the highest standards and requirements in our field in order to maintain the high quality of our work. We will be the subject of a peer review in FY 2001, which will provide an independent assessment of our internal quality control system over our reviews

and audits, and assurance that we are following applicable standards and requirements.

Staffing. Mr. Chairman, we have made considerable progress in establishing this office. We have achieved our goal of hiring 648 highly qualified people this past May. We also hired additional staff to meet unanticipated workload needs resulting from the revised designation of functions between this office and the Inspection Service.

This increase in employees has allowed us to provide more timely and reliable information to assist the Postal Service in addressing its challenges, which I have addressed throughout this testimony.

Diverse and Highly Qualified Staff. The Office of Inspector General is proud of the diverse talents, skills, and professional experience of our staff. Of the 660 individuals on board as of today, 50 percent are women and 48 percent are minorities. [Minorities include Blacks (33 percent), Hispanics (6 percent), Asians (7 percent), and Native Americans (.4 percent).] Our senior management staff is 40 percent female and 29 percent minority. We believe this diversity has enhanced our work, and we are committed to developing the diverse talents of our employees.

Reorganization. Earlier this year, we reorganized our structure to better reflect Postal Service business processes, the new designation of functions, and our ability to be more responsive to our customers. These changes included:

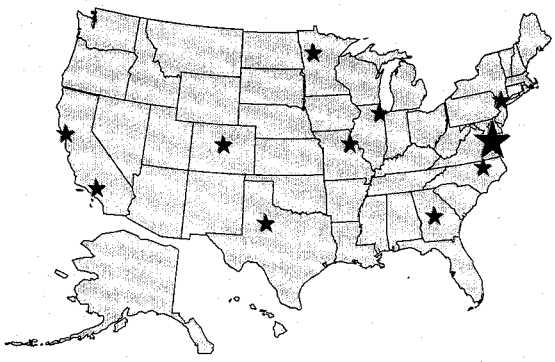
- Realigning and renaming and all teams under the following areas: eBusiness, Business Operations, Business Protection, Oversight and Business Evaluations, and Internal Business;

- Dividing the field liaison function into East and West areas of operation; and

- Moving the Strategic Planning and Internal Quality, Congressional and Public Relations, and Quality Assurance/Internal Affairs teams to more prominent positions within the organization.

Field Offices. We recognize the importance of establishing a nationwide presence. This year, we have positioned ourselves strategically across the country to increase our coverage of postal operations. We have opened 5 new offices for a total of 11. You can find our staff in Arlington, Virginia; Dallas, Texas; Minneapolis, Minnesota; St. Louis, Missouri; San Mateo, California; Los Angeles, California; Atlanta, Georgia; Chicago, Illinois; New York, New York; Denver, Colorado; and Raleigh, North Carolina.

OIG Field Locations



Budget for FY 2001. I would like to thank the Governors for recognizing the continuing benefits of our work by approving our FY 2001 budget of $113 million. This will allow us to increase our staff by 77 employees to a total staff of 725, and

to open four additional offices in Tampa, Florida; Boston, Massachusetts; Pittsburgh, Pennsylvania; and Portland, Oregon. These offices will help increase our visibility to Postal Service stakeholders, increase our local coverage of postal operations, and reduce the travel burden on our employees, some who are currently travelling more than 75 percent of the time.

V. CLOSING

In closing, I want to thank you for this opportunity to testify before the Subcommittee. Our independent status and the public perception of that independence enables us to continue to add value to the Postal Service as it evaluates its role in a technologically advanced and highly competitive environment. The OIG will continue to assist the Postal Service, the Governors, and Congress by providing accurate and objective information to help you make important decisions. We look forward to continuing to work with this Subcommittee, the Governors, and the Postal Service.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or the Subcommittee may have.

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Mr. MCHUGH. Finally, and certainly not least, Mr. Bernard Ungar, Director of Government Business Operations Issues for the General Accounting Office.

Let me say a special thanks to you and to the GAO for being so responsive to our many requests, issued by both sides here, to try to assist us in understanding the issues and the challenges that face the Postal Service. You have been a tremendously supportive coplayer in this process, and we are deeply appreciative for that.

With that, Mr. Ungar, our attention is yours.

STATEMENT OF BERNARD L. UNGAR, DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, ACCOMPANIED BY TERESA ANDERSON AND GERALD BARNES, ASSISTANT DIRECTORS, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. UNGAR. Thank you, Mr. Chairman, for those kind words, and members of the subcommittee. We are certainly appreciative of being here today to assist the subcommittee in its oversight efforts with respect to the Postal Service.

As the Inspector General and Postmaster General did, I too would like to submit a formal statement for the record and summarize our statement.

Before I do that, I would like to mention I am accompanied by Teresa Anderson and Gerald Barnes, Assistant Directors in our General Government Division, who have worked on postal matters for longer than I have, so they are quite in tune on those issues.

In brief, over the last 5 years, the Postal Service's performance has certainly had a number of quite positive aspects to it in terms of profits that it had not heretofore made, delivery performance, and high rankings of customer satisfaction. These are certainly noteworthy achievements.

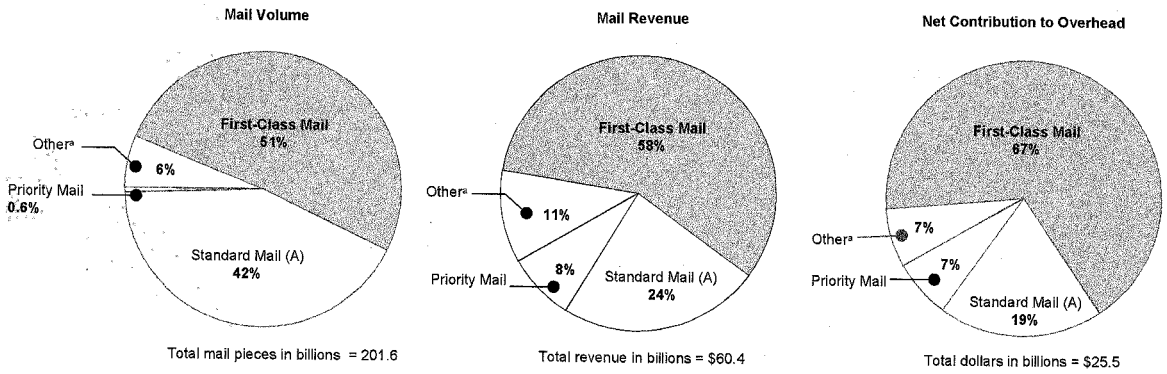
As the Postmaster General indicated, on the other hand, all the news is not good. Mail volume and mail revenues have not grown as much as expected and costs have increased more than expected. This obviously has put the Postal Service into a very uncertain situation.

The Postal Service's most recent strategic plan paints a more pessimistic scenario in terms of the volume or expected volume growth and revenue growth than the picture that it presented to us last year and that we presented to the subcommittee last year. While the future is certainly difficult to predict and it is very difficult to say what exactly is going to take place, that does not mean that the Postal Service or the subcommittee should sit by and let events take shape without aggressive and innovative interaction.

With that, I would like to show a graphic that we have distributed in advance that shows what the dilemma is with respect to first class mail volume. If first class mail volume does not grow as expected, or it grows less than expected or doesn't grow at all, it presents a real predicament for the Postal Service. I think this graphic shows why.

[The information referred to follows:]

Postal Service Mail Volume, Revenues, and Contribution, Fiscal Year 1999



Note: Percentages may not add up to 100 due to rounding.
[a] Other includes Express Mail, periodicals, international mail, standard mail (B), U.S. Postal Service mail, free mail for the blind and handicapped, and mailgrams.
Source: Service's 1999 Annual Report and documents.

Mr. UNGAR. Looking at first class mail volume, it constitutes 51 percent of the volume, 58 percent of the revenue, but contributes two-thirds of the overhead costs. These overhead costs in the short term generally do not vary with volume; over the long term they could.

Thus, if first class volume goes down or doesn't grow very much, the Postal Service is going to have a difficult time trying to capture the funds to cover the overhead, and over time is certainly going to have to look at the price structure, look at service, or a combination thereof.

This certainly raises the question that H.R. 22 has addressed, and other folks have addressed; and that is, what kind of organization does the Congress want the Postal Service to be in the future? What kind of flexibility should it have, what kind of constraints should it operate under, what kind of rules and regulations should it be subject to? This is certainly a question with the Federal Express announcement that was made earlier. That is really what we see as the key policy issue facing this Congress and probably the next Congress and maybe the one after that.

In the oversight area, there are three issues that I would just like to briefly summarize. They are closely related to the public policy issues.

The first issue has to do with the Postal Service's progress in improving productivity and cutting costs, certainly a very important area. Here, for example, we are encouraged by the growth in productivity that the Postal Service expected this last year, 2.2 percent. This is very positive encouragement considering it has not improved productivity in recent years; in fact, productivity declined in a number of years before this year.

It is also encouraging that the Postal Service has embarked on a series of cost-cutting initiatives, including breakthrough productivity. We think it is very important for the subcommittee to ask the Postal Service about these particular measures—what are they, when are they going to take place and what kind of progress is being made?

The second area relates closely to an area that the Inspector General mentioned as well, the human capital area. There are three specific elements to that we would like to highlight.

One is the long-standing problem the Postal Service has faced in the labor-management relations area. We are encouraged some progress has been made, but there is still a long way to go in that area.

There are a large number of grievances the Postal Service has to deal with, as recently reported by the Violence Commission. While these are certainly important to the work force, they also detract from the main mission of delivering the mail, and certainly absorb a substantial amount of costs, which have been estimated at over $200 million a year, to deal with.

The question here is, do the postal unions, the management associations, and the Postal Service itself share the same sense of urgency that labor relations have to be improved, have to be worked on, so that the Postal Service and its stakeholders can get on with the business of addressing the major challenges that the Service faces?

Also, the Postmaster General recently said that a very large percentage of the Postal Service's executives are over the age of 50, and succession planning is a very key ingredient in the future of the Postal Service. It is going to be important for the subcommittee to oversee the Service's efforts to deal with this issue, as well as assure that its diversity goals are achieved at the same time.

Finally, the last issue that I would like to briefly mention has to do with the reliability and the credibility of the information—performance information—that the Postal Service has been reporting. Today, we issued to you, to this subcommittee, our report on enhancements needed in the Postal Service's Results Act efforts.

Here, as well as in the recent effort that we did for this subcommittee and the Senate Subcommittee on Electronic Commerce, we were distressed to see that some of the information that the Service had been reporting in terms of its financial performance was unreliable and not credible, and some of the information that had been reported on its overall performance in its 1999 performance report was, in our view, quite misleading.

We are pleased that the Postal Service has recognized that these are areas that need to be improved and has promised prompt and swift corrective action.

That concludes my summary, Mr. Chairman.

I would also like to, as others have done, thank you personally and the rest of this subcommittee for the support that you have shown for GAO, particularly in those years when we were going through some fairly challenging budget reductions. We certainly appreciate your support then and your continuing support.

[The prepared statement of Mr. Ungar follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on the Postal Service, Committee on Government Reform, House of Representatives

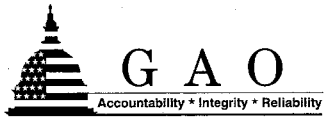
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U.S. POSTAL SERVICE

Sustained Attention to Challenges Remains Critical

Statement of Bernard L. Ungar
Director, Government Business Operations Issues
General Government Division





GAO/T-GGD-00-206

Summary

U.S. Postal Service: Sustained Attention to Challenges Remains Critical

The Postal Service faces an uncertain future. Although the Service has slightly improved its overnight First-Class Mail delivery performance this year, improved productivity, and implemented cost-cutting measures, it has encountered increasing financial difficulties as mail volumes have grown more slowly than expected and as postal costs have been difficult to restrain. The Service has reported that it faces significant threats from electronic substitution and is planning for declining mail volumes, especially in First-Class Mail, in the coming years. Although it is difficult to predict the timing and magnitude of further mail volume diversion and potential financial consequences, the Service states that it is working to address this challenge by aggressive cost-cutting to achieve breakthrough productivity and by new revenue generation.

A key oversight issue for the Service, Congress, and the American people is whether the Service is heading for financial shortfalls that could, in the long run, hinder its ability to carry out its mission of providing affordable, universal postal services that bind the nation together. Key questions facing the Service in the long term include the following:

- Can the Postal Service maintain and, where necessary, improve on the quality of mail delivery service?
- Can the Service continue to provide affordable postal rates?
- Can the Service remain self-supporting through postal revenues?
- Can the Service continue in the long term to provide the current level and scope of universal postal service?

Several continuing challenges facing the Service include improving productivity, controlling costs, enhancing revenues, and improving labor-management relations. Long-term increases in productivity will be essential for the Service's future success. The Service recently reported to us that its productivity for fiscal year 2000 through mid-August had increased 2.2 percent. Although this would be the largest increase since 1993, it would translate into a cumulative increase of only 1.5 percent over the past decade. Questions for continued oversight include how and when the Service expects to achieve breakthrough productivity. Another issue is whether the Service, unions, and management associations will be able to find common ground to address long-standing problems in the workplace that may impede the Service's ability to improve its productivity.

GAO also has continued concern about the quality and transparency of the Service's performance information. GAO's recent reports contain specific recommendations for further improvements in this area.

Statement

U.S. Postal Service: Sustained Attention to Challenges Remains Critical

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in the Subcommittee's oversight hearing on the U.S. Postal Service (the Service). In my testimony, I shall briefly discuss the Service's overall performance during the past year as well as the challenges that persist as mail volume growth continues to slow and competition from the private sector increases. The Service provided us with updated performance information that is included in this statement. Also, I will discuss work that we have completed over the past year and provide information on our ongoing work. A list of our reports and testimonies related to postal matters issued since October 1999 is included in the attachment to this statement.

The Service's Performance and Future Challenges

The Service has slightly improved its overnight First-Class Mail delivery performance this year, improved productivity, and implemented cost-cutting measures. However, the Service has encountered increasing financial difficulties as mail volumes have grown more slowly than expected and as postal costs have been difficult to restrain.

Moreover, the Service faces an uncertain future, in view of its expectation that mail volumes will decline in the coming years. A key oversight issue for the Service, Congress, and the American people is whether the Service is heading for financial shortfalls that could, in the long run, hinder its ability to carry out its mission of providing affordable, universal postal services that bind the nation together. Key questions facing the Service in the long term include the following:

- Can the Service maintain and, where necessary, improve on the quality of mail delivery service?
- Can the Service continue to provide affordable postal rates?
- Can the Service remain self-supporting through postal revenues?
- Can the Service continue in the long term to provide the current level and scope of universal postal service?

The Service's recently approved 5-Year Strategic Plan for Fiscal Years 2001 through 2005 stated that the changes in competition challenge the Service's traditional mission and raise questions about its public service obligations that do not have easy answers. The Postmaster General recently said that the Service is at a crossroads with regard to its ability to continue to provide affordable universal service. Earlier this month, the Chairman of the Postal Rate Commission (PRC) also raised the possibility that the nature of universal postal service, specifically delivery to every address 6 days each week, may need to be reconsidered at some point if

competition leads to large declines in the Service's mail volume. Other stakeholders have also raised concerns about the potential effect of competition on universal postal service. In my testimony, I will provide an update on the Service's recent accomplishments, key trends affecting the Service, and how the Service plans to respond to the formidable challenges it is facing.

The Service's Delivery Performance and Customer Satisfaction

Over the past fiscal year, the Service has slightly improved its overnight First-Class Mail delivery service performance. In its fiscal year 2000 performance plan, the Service established targets of 93 percent on-time delivery of overnight First-Class Mail. The Service reported that it delivered about 94 percent of overnight First-Class Mail on time in the first 3 quarters of fiscal year 2000. If this performance were sustained for the fourth quarter, it would represent a record level of annual performance since the Service began its current measures in the early 1990s. The Service also established a target of on-time delivery for 2/3-day First-Class Mail—which accounts for more than half of First-Class Mail volume—of at least 87 percent, with at least 1-percent improvement over the previous fiscal year. For the first 3 quarters of fiscal year 2000, the Service reported that on-time performance for 2/3-day First-Class Mail was about 85 percent, compared with about 86 percent for all 4 quarters of fiscal year 1999.

In addition, the Service recently reported that 92 percent of residential customers surveyed by the Gallup Organization rated its overall service as excellent, very good, or good, including 29 percent who rated their overall service as excellent, 42 percent as very good, and 21 percent as good.

The Service Faces an Uncertain Future

We testified last year before this Subcommittee that the Service may be nearing the end of an era as it faces growing challenges from competition, notably from private delivery companies and electronic communications alternatives such as the Internet. The Service and some stakeholders agree that growth in the Service's core business of delivering First-Class Mail has already been affected by the rapid growth of the Internet, electronic communications, and electronic commerce. Service officials expect that competition will lead to declines in First-Class Mail volume in the next decade and a consequent loss of revenues.

The Service achieved its best ever financial and service performance over the past 5 years. However, according to the Postmaster General, the Service has encountered increasing difficulties in meeting this year's goal of $100 million in net income. The Service recognizes that it faces challenges from a dynamic and versatile marketplace, changing customer

demands, and more alternative delivery options that provide greater choices for customers.

As an example of trends that have affected the Service's mail volumes, at the federal level, government agencies are mandated to move as quickly as possible to reduce paperwork and to adopt electronic billing and payment. Of the 880 million Social Security checks, tax refunds, and other payments sent by the Department of the Treasury in fiscal year 1999, 68 percent were sent electronically rather than mailed. According to the Service, this resulted in $180 million in lost First-Class Mail revenue. Further, according to a postal operations survey conducted by the American Bankers Association, the banking industry reduced its mail volume in 1999 by almost 18 percent compared with its 1996 level.

In fiscal year 2000, the Service's total mail volume has grown by 2.7 percent through accounting period 12 (August 11, 2000) compared to the same period in fiscal year 1999, which has been less than the 3.8 percent called for in the Service's Integrated Financial Plan for fiscal year 2000. This difference has contributed to a shortfall in the Service's revenues compared with what it had originally budgeted for, and thus made it more difficult for the Service to achieve its target of $100 million in net income for fiscal year 2000. Earlier this month, the Deputy Postmaster General testified before Congress that it is unprecedented for mail volume to grow at such a slow rate given the strong growth in the general economy, which has been associated with faster mail volume growth in the past.

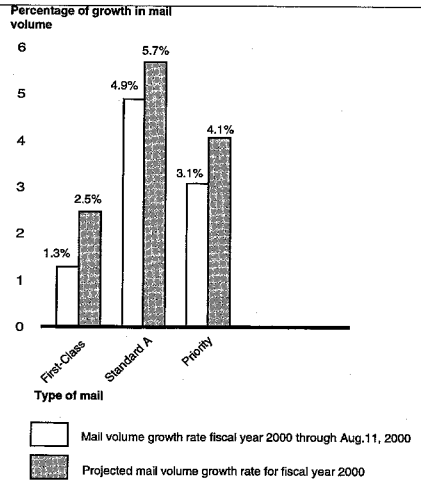
As figure 1 shows, for fiscal year 2000 through accounting period 12, the Service's mail volume growth rate had not reached its projected growth rate for fiscal year 2000[1]—which ended on September 8, 2000—for its major mail categories:

- First-Class Mail volume increased at a 1.3- percent rate in fiscal year 2000 through accounting period 12, compared with the same period in fiscal year 1999. The Service had projected a 2.5 percent growth rate for First-Class Mail in its Integrated Financial Plan for Fiscal Year 2000.
- Standard A (primarily advertising) mail volume increased by 4.9 percent during this period, which was somewhat less than the 5.7 percent rate projected for the full year.

[1] The dates that Service fiscal years end vary by year and conform to the Service's 13-period accounting year. Accounting period 12 ended on Aug. 11, 2000, and accounting period 13 ended on Sept. 8, 2000.

- Priority mail volume increased by 3.1 percent during fiscal year 2000 through accounting period 12. The Service's plan had projected a 4.1 percent increase for fiscal year 2000.

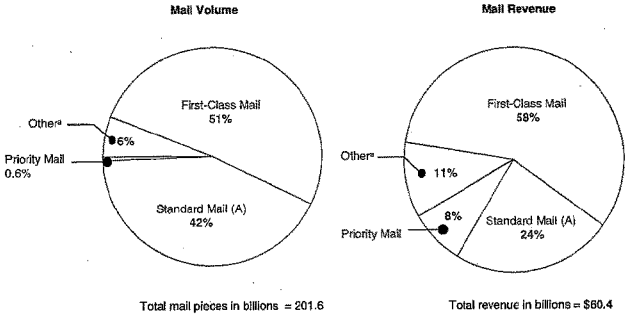
Figure 1: Fiscal Year 2000 Mail Volume Growth Rate Has Been Less Than Projected



Source: Postal Service Financial and Operating Statements, fiscal year 2000 through accounting period 12 (August 11, 2000), and Fiscal Year 2000 Integrated Financial Plan.

To put these results into context, First-Class Mail, Standard A mail, and Priority mail accounted for the vast majority of the Service's total mail volume, total revenues, and total contribution to pay for institutional costs (see figures 2 and 3).

Figure 2: Composition of Service Mail Volume and Corresponding Revenues, Fiscal Year 1999



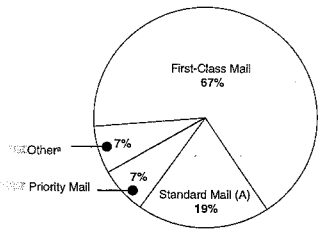
Note 1: International mail revenue includes foreign postal transaction revenue.

Note 2: Percentages may not add to 100 due to rounding.

[a]Other includes Express Mail, periodicals, international mail, Standard mail (B), U.S. Postal Service mail, free mail for the blind and handicapped, and mailgrams.

Source: Service's 1999 Annual Report.

Figure 3: Net Contribution to Overhead, Fiscal Year 1999



Total dollars in billions = $25.5

Note: Percentages may not add to 100 due to rounding.

*Other includes Express Mail, periodicals, international mail, standard mail (B), U.S. Postal Service mail, free mail for the blind and handicapped, and mailgrams.

Source: Service documents, fiscal year 1999.

Looking ahead, the Service's 5-Year Strategic Plan for Fiscal Years 2001 through 2005 stated that the substitution effect from new technology on the Service's mail volume is expected to have a significant impact on contribution (or margin). The Strategic Plan reported that the expected declines are likely to be in the categories of mail that the Service handles most efficiently—First-Class bills and payments.

The Strategic Plan stated that for the first time, the Service has adopted a planning assumption that the long-term close relationship between the growth of the economy and mail volume will change in the future, leading to declining mail volumes for First-Class Mail and eventually even Standard A mail. The Service's assumption for its baseline scenario is based on its expectation of "moderate diversion" of First-Class Mail to substitutes such as Electronic Bill Presentment and Payment and e-mail. The baseline scenario presented in the Service's Strategic Plan is somewhat more pessimistic than the baseline scenario that the Service reported to us last year and that was included in our testimony before your Subcommittee. The current baseline scenario calls for total mail volume to increase less, start to decline 1 year sooner, and to decline to a greater extent than last year's baseline scenario.

However, the Service is also considering the possibility that mail volume may decline even sooner and faster than it does in its revised baseline scenario. The Strategic Plan reported that most external experts suggest a "rapid diversion scenario" where diversion would occur more rapidly, and also impact Standard A mail volumes as interactive Internet advertising reduces traditional targeted advertising mail and catalogs.

The Strategic Plan noted that, like many organizations, the Service was unable to predict the speed at which the Internet has changed the American economy. The Strategic Plan stated that there is broad agreement that the Service will face significant threats from electronic substitution, and that mail volumes, especially in First-Class Mail, are likely to decline in the near future. However, as the plan recognized, there is considerable uncertainty about the timing and rate of diversion, as well as whether the Service can or should do anything about it.

The Implications of Mail Volume Trends for the Service

Although it is difficult to predict the timing and magnitude of further mail volume diversion and potential financial consequence, the Service has begun to plan how it would address a range of such scenarios. The Service's Acting Chief Financial Officer told us that because of the uncertainty concerning future mail volume trends, the Service considers it prudent to develop a range of scenarios and do contingency planning for them. He told us that it takes time for an organization as large and as complex as the Service to plan and prepare for the major operational changes that would likely be necessary in the event of substantial declines in the Service's mail volume. He also noted that the Vice-Chairman of the Service's Board of Governors said earlier this month that because the Service does not know how fast or how much the Internet will change the Service's business model, the stakes are high and the Service cannot wait to be certain before it acts.

The Service's basic strategy is a combination of aggressive cost-cutting and new revenue generation. The Service's Strategic Plan stated that the Service expects that if electronic diversion does not shift into high gear, leading to more rapid volume decline, then it can sustain its viability over the next 5 years by dramatically cutting costs and seeking new revenue sources within the current regulatory structure. However, the Strategic Plan noted that if postal markets change over the next 5 years faster than currently anticipated, postal management and stakeholders will need to address a number of issues, including

- the definition of universal postal service,
- the potential realignment of service standards, and

- the configuration of current operations and infrastructure.

The Strategic Plan warned that historic increases in productivity and aggressive management of the size of the Service workforce already are anticipated. Therefore, according to the Strategic Plan, if the volume decline is as drastic as some experts have forecast, especially in critical mail categories currently carrying the burden of contribution to institutional overhead, postal rates are likely to increase dramatically for the remaining mail volume. Further, other categories of mail would also be affected. Although the Strategic Plan noted that any prediction of the impact of mail volume 5 years in advance is almost certain to be flawed, the Service anticipates the need for a "structural transformation" that is to include, among other things, achieving "breakthrough productivity."

Recent Productivity Changes and the Challenge of Achieving Breakthrough Productivity

The Service reported to us that the increase in its overall productivity for fiscal year 2000 through accounting period 12, as measured by Total Factor Productivity (TFP), was 2.2 percent.[2] If this increase were sustained for the full fiscal year, it would represent the fifth-largest annual increase in postal productivity since 1970, and the largest increase since fiscal year 1993. Nonetheless, since postal productivity declined in 5 of the last 6 fiscal years (from 1994 through 1999), a 2.2 percent productivity increase in fiscal year 2000 would translate into a cumulative productivity increase of only 1.5 percent from fiscal year 1990 to fiscal year 2000. Further, postal productivity would thereby increase by only 12.2 percent since 1970–despite the vast changes in postal automation and postal operations that have occurred in the past 3 decades.

In addition, a 2.2-percent increase in postal productivity would be less than the 3.1-percent increase that was incorporated into the Service's Performance Plan for Fiscal Year 2000. The Service told us on September 7, 2000, that "Because of the Postal Service's financial and operational success in FY 1999, the actual productivity improvement estimated to be required to achieve its FY 2000 net income plan of $100 million was revised to 2.1 percent." However, it is unclear whether such a productivity improvement would be sufficient for the Service to meet its net income goal. As reported in the press, the Postmaster General said at the end of August that the Service could record a deficit up to $300 million for fiscal year 2000.

[2] TFP measures the changes in the relationship between the Service's outputs and resources expended in producing those outputs. The Service's main outputs are mail volumes and servicing an expanding delivery network. By tracking outputs and resource usage, TFP provides a measure of historical performance.

As the Service and key stakeholders have recognized, long-term increases in its productivity will be essential to its future success. For example, the Mailers Council, a coalition of mailers and mailing associations, reported this March that increasing competition, operating and cost management constraints—some imposed by outside entities—as well as the consequences of management decisions, have influenced a decline in the Service's productivity in past years.[3] The report stated that: "As a result of these factors, at a time when every competing technology is becoming less expensive, the cost of using the nation's mail system is becoming more expensive. To ensure the Service's survival, therefore, the Mailers Council believes postal management must focus its considerable skills and resources on those factors it can control, and thereby generate needed productivity gains." The report noted the need for the Service to reduce its costs and become more efficient to achieve productivity gains.

The Challenge of Maintaining Financial Viability

As we testified last year, the Service's ability to maintain financial viability by controlling costs, improving productivity, and enhancing revenues presents a continuing challenge. We have reported that the Service's continued success will depend heavily on its ability to control operating costs, and that the Service has recognized that it needs aggressive cost management to avoid unwarranted costs. The Service has made some progress this year in controlling costs through reducing the number of workhours. For fiscal year 2000 through accounting period 12, the Service reported it had reduced the total number of workhours compared to the same period in fiscal year 1999 while, at the same time, increasing the number of delivery points in the postal network.

In his March 20, 2000, speech at the National Postal Forum, the Postmaster General said that the Service intends to reduce expenses by at least $4 billion by 2004. He estimated that about $700 million a year would come from "breakthrough productivity" in the mail processing system, while about $100 million annually would come from overhead reductions, about $100 million annually from reducing transportation costs, and about $100 million annually from more efficient paperwork and purchasing. However, on August 11, 2000, the Service told the PRC that: "The amounts from the PMG's speech represented an aggressive challenge to the organization rather than a blueprint for specific cost savings." The Service said that it expected to achieve only $744 million in cost savings in the "test year" (i.e., the year after the proposed rate increase would go into effect), largely because it expected to achieve only $466 million of the called-for $700 million in cost savings in mail processing and other operations. The

[3] Postal Service Productivity: Real Improvements Needed Now, Mailers Council, Mar. 8, 2000.

Service said that it "recognizes the difficulty in achieving the aggressive cost reductions in fiscal year 2001, the first year of the Breakthrough Productivity Initiative." Given this response, questions for continued oversight include the following:

- What does the Service consider to be breakthrough productivity?
- How does the Service expect to achieve breakthrough productivity?
- When does the Service expect to achieve breakthrough productivity?

Continuing Disagreements in Labor-Management Relations

We continue to believe that the Service and its major postal labor unions and management associations need to focus on common approaches for addressing persistent labor-management relations problems, thereby improving the Service's work environment and helping it maintain its competitive position. The August 2000 Report of the Postal Service Commission On A Safe and Secure Workplace noted that "A sea change in attitudes of all of the parties—and an environment of trust—will be required to slash the number of grievances and reshape compensation systems. This will require a sustained effort." The report said that in order to eliminate sources of friction, postal management, unions, and management associations must work together.

Further, the report noted that the Service had an enormous backlog of more than 126,000 grievances, and that more than 6,300 grievances were arbitrated in fiscal year 1999. By way of comparison, in the entire automobile industry, with about 400,000 bargaining employees, only 11 grievances reached arbitration in 1998, according to the report. Several federal agencies contacted by the Commission also reported only a few arbitrations a year. Further, the report said that the Service has procedures similar to some other organizations that do not have such unusually large numbers of complaints. The report said that the annual cost of postal grievances was recently estimated at $217 million, with a small industry of more than 300 aribtrators handling postal cases. At the same time, the report recognized that many grievances in the backlog are related issues grieved separately, such as 40,000 grievances filed by the American Postal Workers Union in a dispute over wash-up time in the New York district.

The Service reported to us that, as of the end of fiscal year 1999, out of about 708,000 bargaining unit employees, about 114,000 grievances were awaiting arbitration at the regional level, up slightly from 112,000 a year ago. However, the Service also reported that about 97,000 grievances had

been appealed to step 3[4], down from about 112,000 a year ago. In addition, the Service's General Counsel told us that the Service's Resolving Employee Disputes, Reaching Equitable Solutions Swiftly (REDRESS) program had helped to reduce the number of Equal Employment Opportunity (EEO) complaints, reversing the past trend toward more EEO complaints.

Although any progress in this area is encouraging, we are concerned that continuing disagreements in labor-management relations may impede efforts to achieve improvements in postal productivity. As some stakeholders have noted, keeping the Service financially viable while maintaining the level and scope of universal postal service is expected to become increasingly difficult. A recognition that similar survival issues were at stake helped lead to major improvements in labor-management relations in the auto industry. Thus, a key question for oversight is whether the Service, its labor unions, and its management associations share the same sense of urgency in improving labor-management relations and finding common ground to address long-standing problems in the workplace.

The Need for Complete and Reliable Information on Postal Performance

In another key area for congressional oversight, we believe that complete and reliable performance data will be essential for the Service, Congress, and stakeholders to monitor the Service's progress towards meeting its goals. The Service has recognized the need for more accurate and complete information on postal performance. In its Strategic Plan, the Service stated that it will invest in a new "Information Infrastructure" to achieve three goals: streamline interaction with customers; provide more timely, accurate, and relevant information to effectively manage operations and reduce costs, improve service performance and sustain quality; and provide more timely, accurate, and relevant information to allocate costs and improve productivity. The Service said that it plans to spend about $2 billion on various information systems over the next 5 years and to develop an "Information Platform" to help it manage its resources more effectively and efficiently.

While we encourage the Service to continue its efforts to improve its performance information, we remain concerned about the quality and transparency of the Service's performance information. We have reported on, and are continuing to monitor, opportunities for improvement in the Service's performance information. Specifically:

[4] Step 3 grievances are grievances that have been appealed by the unions to the area level because they could not be resolved at the plant or district levels.

- In our testimony last year before this Subcommittee, we highlighted the need for the Service to take action to address long-standing issues related to the quality of data used in ratemaking and recommended that the Postmaster General report to congressional oversight subcommittees on the actions taken and planned in this area.[5] The Service pledged to periodically report on progress in implementing the recommendations of a study that was initiated by your Subcommittee on the quality of data used by the Service in setting rates. In its latest report to your Subcommittee in July 2000, the Service documented actions taken and planned to improve the quality of rate-setting data. The report also contained much useful information on the status of each of the outstanding recommendations as well as the resources devoted to improving data quality.

- Our recent report on the Service's e-commerce initiatives found deficiencies in the financial information the Service provided for the e-commerce activities that raised concerns about the accuracy and completeness of the financial reporting for e-commerce activities.[6] We do not believe the e-commerce financial data that the Service provided was sufficiently complete and reliable to be used to assess its progress toward meeting its overall financial performance expectation, which is that revenues generated by e-commerce products and services in the aggregate are to cover the Service's direct and indirect costs as well as make a contribution to overhead. The Service agreed with our recommendation that it provide complete and accurate information on costs and revenues for the financial data on e-commerce initiatives and said it is instituting a standard financial reporting procedure in this area. Actions the Service has reported taking are important and need to be effectively implemented.

- On November 6, 1998, the Service reported to your Subcommittee that: "We recognize the need to provide our customers with specific measures of delivery performance for all our products and services." The Service said it intended to use a phased approach to develop measures as soon as possible for products such as Periodicals. However, the Service's 5-Year Strategic Plan for fiscal years 2001 through 2005, which was approved by the Board last month, stated that "Currently, an internal system is used to measure delivery within requested windows for only a small portion of Standard A and Periodicals mail. The need to build a better indicator is clearly necessary if we are to satisfy the need of our advertising and

[5] U.S. Postal Service: Challenges to Sustaining Performance Improvements Remain Formidable on the Brink of the 21st Century (GAO/T-GGD-00-2, Oct. 21, 1999).

[6] U.S. Postal Service: Postal Activities and Laws Related to Electronic Commerce (GAO/GGD-00-188, Sept. 7, 2000).

periodical customers in the future .... Over the next several years, technology will enable the USPS to develop service performance measurement systems for all major categories of mail and for any new services introduced to the market." Thus, the Service has recognized the need for improvement in its performance measures for mail delivery but this task will remain incomplete for some time to come. As we reported in January 1999, it will be important for the Service to develop results-oriented measures for its critical functions and program areas, as intended by the Government Performance and Results Act of 1993 (GPRA).[7]

In addition, we are releasing today our report that discusses the Service's fiscal year 1999 performance report and the fiscal year 2001 preliminary performance plan that are required under GPRA. In our report we identified some positive aspects, however, we are concerned that the Service's performance plans and performance reports may not have been as useful to Congress, postal managers, and others as they could have been. As we reported, we believe that in preparing future performance plans and performance reports, the Service needs to focus more acutely on providing and presenting information that is clear and understandable. Accordingly, we made recommendations for improvements so that interested parties would be able to more easily determine how well the Service is improving performance and achieving its goals, as intended by GPRA.

Although we recognize that this was the first year that the Service published a performance report, we have some concerns regarding the way information was presented. For example, we believe it was misleading for the Service's fiscal year 1999 performance report to highlight that the Service exceeded its targets for overnight and 2/3 day on-time deliveries, particularly when there was not an accompanying acknowledgement that less than a full year's performance was used in making that determination. The Service's fiscal year 1999 performance plan established 93 and 87 percent targets for on-time delivery for overnight and 2/3 day First-Class Mail, respectively; and portrayed these as annual targets. When all 4 quarters of fiscal year 1999 performance data were aggregated, the Service met, but did not exceed, its goal of 93 percent on-time delivery of overnight First-Class Mail. It also delivered 86 percent of the 2/3-day First-Class Mail on time—1 percentage point less than the established target of 87 percent. The Service's performance for all 4 quarters of fiscal year 1999 either met, or came close to meeting the established targets. Therefore, we question why the Service chose to

[7] Major Management Challenges and Program Risks: U.S. Postal Service (GAO/OCG-99-21, Jan. 1999).

highlight information that did not include performance for the full fiscal year, including its performance during its heaviest volume period—the holiday mailing season.

We also assessed the Service's fiscal year 2001 preliminary performance plan. Some of the positive aspects of this plan included additional performance indicators and targets for selected subgoals, such as targets for (1) overall customer satisfaction (residential and business); (2) resolving employee complaints (Resolving Employee Disputes, Reaching Equitable Solutions Swiftly–REDRESS); and (3) the Voice of the Employee survey—which is the vehicle used by the Service to improve its understanding of employee issues and concerns. However, several subgoals, indicators, and targets that were included in the Service's fiscal year 2000 performance plan were dropped from the fiscal year 2001 preliminary performance plan. Dropped subgoals included (1) keeping price increases at or below the rate of inflation, (2) controlling costs by achieving productivity gains, and (3) restoring equity. The preliminary performance plan did not fully explain why these three subgoals, indicators, and targets were dropped. In May 2000, the Board of Governors stated that it had decided to restore Total Factor Productivity as a national-level results indicator. However, if the Service does not set a goal concerning price increases, it will be more difficult to hold the Service accountable for its performance in this area.

Our report makes recommendations to the Postmaster General regarding specific opportunities for improvement concerning both the Service's fiscal year 2001 preliminary performance plan and its fiscal year 1999 performance report. In commenting on our draft report, the Service generally agreed with the facts and said it planned to implement the report's recommendations.

Our Work Related to Other Postal Issues

I would now like to provide you with a brief summary of work we have completed on other postal issues since the fall of 1999. This work resulted in reports and/or testimony on (1) the Service's electronic commerce activities, (2) diversity in the Service, (3) the Breast Cancer Research Semipostal Stamp, (4) acceptance controls for business mail, and (5) the Department of State's implementation of its international postal responsibilities. In addition, we have ongoing work related to supervisory pay differentials.

Electronic Commerce

On September 7, 2000, we testified[8] and issued a report[9] on the Service's electronic commerce initiatives. We reported that the Service is in the early stages of implementing an electronic commerce (e-commerce) program. It has taken steps this year to develop and implement e-commerce activities, including developing a definition of its e-commerce initiatives, identifying e-commerce and related initiatives, and establishing a process for approving these initiatives. The Service identified seven e-commerce initiatives involving products and services meant to facilitate the movement of messages, merchandise, and money in ways that require the use of the Internet and generate revenues for the Service. The Service also outlined overall e-commerce goals and strategies and developed some performance targets for its e-commerce initiatives. However, we identified three problem areas relating to the Service's management of its e-commerce area:

- inconsistencies in identifying e-commerce and related initiatives and in reporting the status of these activities that made it difficult for us to ensure we had a complete and accurate picture of the Service's e-commerce activities;
- inconsistencies in following the required process for reviewing and approving its e-commerce initiatives, which raised questions as to whether the initiatives were appropriately planned and reviewed; and
- deficiencies in the financial information the Service provided for the e-commerce activities that raised concerns about the accuracy and completeness of the financial reporting for e-commerce activities.

To help ensure more effective management and oversight of the Service's e-commerce activities, we recommended that the Postmaster General (1) take appropriate actions to help ensure that e-commerce and related initiatives are appropriately identified and maintain accurate and complete information related to the status of these initiatives; (2) follow processes and controls that have been established for developing and approving e-commerce initiatives; and (3) provide complete and accurate information on costs and revenues for the financial data on e-commerce initiatives. The Service endorsed our recommendations and reported that it is taking action to implement them.

[8] U.S. Postal Service: Electronic Commerce Activities and Legal Matters (GAO/T-GGD-00-195, Sept. 7, 2000).

[9] GAO/GGD-00-188.

In the legal area, the Service provided its views on how various laws and regulations apply to its e-commerce activities. The Service said that its unique status as an independent establishment of the executive branch gives it broad legal authority and discretion to offer e-commerce products and services in ways that the Service finds appropriate to its assigned functions and in the public interest. The Service, some competitors, and others have conflicting views on the extent of the Service's legal authority to offer e-commerce products and services and under what circumstances it should offer such services.

Diversity

During the past year, we issued two reports to Congressman Chaka Fattah, the Subcommittee's Ranking Minority Member, concerning employee diversity and Equal Employment Opportunity (EEO) issues. Specifically, we issued a report in March 2000, on the representation of women and minorities in the Postal Career Executive Service (PCES),[10] and in June 2000, a report on diversity in district management-level positions.[11]

In our March 2000 report, we provided information on the representation of women and minorities in PCES, which includes officers and executives. Among other things, we determined that at the end of fiscal year 1999, women and minorities represented about 35 percent of the PCES executive workforce compared to their representation of about 58 percent in the Service's overall workforce. We also found that women and minority representation among the Service's PCES executive workforce was about 35 percent compared with about 32 percent in the federal government's career Senior Executive Service (SES), excluding the Department of Defense (DOD).

The Service reported that it had various efforts under way or planned that related to increasing diversity among its PCES executives. For example, in November 1998, the Service required that its PCES merit performance evaluation process address diversity-related activities in individual executive performance objectives and that executives be accountable for the accomplishment of those objectives. The Service also reported that it had developed management training programs to help employees better manage their careers, and had established a diversity oversight group to oversee corporate diversity initiatives.

[10] U.S. Postal Service: Diversity in the Postal Career Executive Service (GAO/GGD-00-76, Mar. 30, 2000).

[11] U.S. Postal Service: Diversity in District Management-Level Positions (GAO/GGD-00-142, June 30, 2000).

Our June 2000 report focused on diversity among 83 postal districts located throughout the United States.[12] More specifically, it provided information on the representation of women and minorities (in the Service's districts) in levels 16 through 26 of the Service's Executive and Administrative Schedule (EAS).[13] The report also provided more detailed information on the representation of women and minorities in EAS levels 16 through 26 for the Chicago, IL, and Akron, OH, postal districts; initiatives implemented to promote diversity; and lessons identified by district officials that related to increasing diversity in those two districts.

At the end of fiscal year 1999, women and minorities in the Service's districts represented a district average of about 49 percent of the EAS 16 through 26 workforce compared with their average representation of about 56 percent across all district workforces (excluding EAS levels 16 through 26). Women and minority representation in EAS levels 16 through 26 in the Service's 83 districts ranged from a low of about 22 percent in the Middlesex-Central district office to a high of 95 percent in the Los Angeles district office. Concerning the representation of women and minorities in the Chicago and Akron district offices, at the end of fiscal year 1999, in Chicago, women and minorities represented about 93 percent of the EAS 16 through 26 workforce compared with their overall workforce representation of 92 percent. In Akron, for this period, women and minorities represented about 41 percent of the district's EAS 16 through 26 workforce compared with their overall workforce representation of about 46 percent.

Both districts implemented several diversity-related initiatives, such as various training programs, including national programs to increase the representation of women and minorities in EAS levels 16 through 26. In addition, to improve other aspects of diversity, both districts were using REDRESS (Resolve Employment Disputes, Reach Equitable Solutions Swiftly), a national alternative dispute resolution program, to facilitate discussion between managers and employees on individual EEO complaint issues. Locally, Chicago and Akron officials had also developed their own individual initiatives and had identified several lessons related to increasing diversity in their districts' EAS 16 through 26 workforces, which included (1) management must demonstrate its commitment to diversity;

[12] The Service has 85 districts. We did not include two district offices—San Juan and Honolulu—in our report because they were missing significant amounts of data on sex and/or race/ethnic origin.

[13] The EAS workforce consists primarily of employees in EAS levels 11 through 26 positions. EAS management-level positions generally start at EAS 16 and include such positions as postmaster, manager of customer services, and manager of postal operations.

(2) training and career development programs must be made available to provide opportunities for women and minorities to ascend to supervisory and management-level positions; and (3) an environment that encourages communications and cultural appreciation between management and employees must be established.

Regarding the alleged EEO concerns at the Youngstown, OH, postal site, although the number of EEO complaints had increased between fiscal years 1997 and 1999, it was not clear whether the complaints stemmed from alleged discrimination, lack of communications, or labor/management problems. District records showed that the number of EEO complaints in Youngstown increased in fiscal year 1999. However, as of May 2000, 51 of the 57 complaints filed were closed. Of these, one resulted in a finding of discrimination. According to some district and union officials, EEO complaints in Youngstown were based little, if at all, on discrimination, but rather on poor communications among managers, supervisors, and employees or poor labor/management relations.

In our June 2000 report, we recommended that the Service reassess the EEO situation in Youngstown to determine what the issues were with respect to the workplace environment, such as discrimination, communications, or labor/management relations; and what additional actions need to be taken. The Service concurred with our recommendations and told us that they intended to implement them.

Breast Cancer Research Stamp

In April 2000, we reported on the Service's Breast Cancer Research Semipostal (BCRS) stamp.[14] We also participated in a hearing on the BCRS of the Senate Subcommittee on International Security, Proliferation, and Federal Services, Committee on Governmental Affairs, in May 2000.[15] The Stamp Out Breast Cancer Act of 1997 directed the Postal Service to establish a special stamp—known as a semipostal—to raise money for breast cancer research. The BCRS was to be available for sale through July 28, 2000—2 years from the date it was issued. The BCRS was the first stamp ever issued by the Service to raise money for nonpostal purposes. The BCRS costs 40 cents, and is valid for the 33-cent First-Class postage rate, leaving 7 cents as surcharge revenue. The act provided that the Service was to deduct from the surcharge revenue the reasonable costs it incurred in carrying out the act, including those attributable to the

[14] Breast Cancer Research Stamp: Millions Raised for Research, but Better Cost Recovery Criteria Needed (GAO/GGD-00-80, Apr. 28, 2000).

[15] Breast Cancer Research Stamp: Millions Raised for Research, but Better Cost Recovery Criteria Needed (GAO/T-GGD-00-137, May 25, 2000).

printing, sale, and distribution of the BCRS, as determined under regulations it shall prescribe. The Service was to remit the remaining net proceeds from the surcharge revenue to the National Institutes of Health (NIH) and DOD for breast cancer research. Seventy percent of the net proceeds were to go to NIH, with the remaining 30 percent to go to DOD's medical research program.

In reviewing the BCRS, we concluded that it has been an effective fund-raiser. It has raised millions of dollars and, at the same time, has been convenient and voluntary. In addition, the public and most of the key stakeholders we spoke with believed it appropriate to use seimpostals issued by the Service to raise funds for special, nonpostal purposes.

Throughout our review, however, we were concerned that the Service had not formalized its criteria for determining what costs would be recouped from the surcharge revenue generated by the BCRS. Additionally, we were concerned that the Service was not consistently applying its informal criteria for making such determinations to all costs being tracked. We recommended that the Postmaster General promptly issue regulations that clearly state the Service's criteria for determining which costs are to be recouped from the BCRS surcharge revenue and ensure that the criteria are consistently applied to all costs. In response to that recommendation, the Service recently issued regulations formalizing its criteria for making the required reasonable cost determinations associated with the BCRS.

In July 2000, Congress expressed its satisfaction with the BCRS by sending legislation to the President to extend the BCRS sales period for 2 years and grant the Service the authority to issue semipostals. The President signed that legislation into law on July 28, 2000 (Public Law No. 106-253). As of July 28, 2000, the Service reported that the BCRS had raised about $15 million for breast cancer research.

Acceptance Controls for Business Mail

In November 1999, we reported on Service changes to improve acceptance controls for business mail.[16] We did this work to determine whether the Service had made changes we recommended in 1996 and whether those changes were working.[17]

[16] U.S. Postal Service: Changes Made to Improve Acceptance Controls for Business Mail (GAO/GGD-00-31, Nov. 9, 1999).

[17] U.S. Postal Service: Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses (GAO/GGD-96-126, June 25, 1996).

The Service discounts postage rates to customers who barcode and presort their business mail before submitting it in bulk quantities to the Service for acceptance processing. The discounted postage rates compensate customers for performing work that otherwise would have to be done by the Service and recognize the Service's lower cost of processing such mail on automated equipment.

We reported in June 1996 that the Service did not have adequate controls over the acceptance of business mail. The Service could not ensure that customers had properly prepared their business mail and were therefore eligible to receive the discounted postage rates. As a result, the Service did not have reasonable assurance that all significant amounts of revenue due from bulk business mailings were correctly identified and received.

Our follow-up review found that the Service had made changes to its controls over the acceptance of business mail that were generally in line with the recommendations we made in 1996 and that should help prevent revenue losses. For example, the Service (1) developed and implemented a risk-based approach for verifying the eligibility of high-risk customers to receive discounted postage rates and (2) made changes to its presort verification, supervisory review, and documentation requirements to help provide more assurance that these functions are performed.

Notwithstanding these actions, however, we could not determine whether all of the changes were working servicewide because data needed to make such a determination were not available. Further, we found evidence that supervisory reviews of revised business mail acceptance procedures were not always performed at the locations we visited. The Inspection Service also found that required verifications were performed properly at some locations but not at others, and that business mail acceptance-unit employees needed additional training at some locations but not at others. We concluded that there was sufficient evidence that the Service still did not have assurance that supervisory reviews of required mail verifications are performed. In addition, we stated that the Service had not fully addressed our recommendation that it develop information for evaluating the adequacy of its business mail acceptance controls.

We recommended that the Postmaster General direct Service officials to develop and implement approaches for providing reasonable assurance that (1) required supervisory reviews of presort verifications are done and (2) business mail acceptance controls are working as intended to prevent improperly prepared mailings from entering the mail stream at reduced postage rates and to minimize the rework required by the Service to

correctly process and deliver such mail. In response to our recommendations, the Service told us that it has implemented a service-wide reporting requirement each accounting period on the number of supervisory reviews of presort verifications conducted and developed a number of tools and acceptance control procedures that will allow the Service to help mailers achieve a consistently high level of presort accuracy for their mailings.

While we are encouraged by the Service's ongoing efforts to improve its controls over business mail acceptance, we remain concerned by continuing problems. For example, the Postal Service's Office of the Inspector General (OIG) recently conducted an audit to determine the validity of mailers' concerns about the identification, adjudication, and collection of revenue deficiencies. Among other things, OIG reported that mail acceptance personnel were not fully knowledgeable of overly complex rate standards, and that the Service lacked a comprehensive management information system for the revenue assurance process, reliable revenue deficiency data, and thresholds for assessing deficiencies.

We believe that postal management must, for the foreseeable future, remain vigilant in monitoring and maintaining the controls over all facets of business mail acceptance. As we noted in our November 1999 report, in fiscal year 1998, business mail accounted for 49 percent of the Service's $58 billion in total mail revenue and 66 percent of the nearly 200 billion mail pieces handled by the Service. Accurately determining and collecting postage for business mail are critical to the overall financial health of the Service.

The Department of State's International Postal Responsibilities

In January 2000, we reported on the Department of State's implementation of its international postal responsibilities.[18] Public Law 105-277, enacted October 21, 1998, amended 39 U.S.C. 407 to give the Department of State primary responsibility for the formulation, coordination, and oversight of policy regarding United States' participation in the Universal Postal Union (UPU). The UPU is a specialized agency of the United Nations that governs international postal service. The major changes resulting from the 1998 act that related to the UPU included (1) transferring primary responsibility for U.S. policy regarding the UPU from the Service to the Department of State and (2) requiring the Department of State and the Service to consult with private providers and users of international postal services, the general public, and such federal agencies and other persons

[18] Postal Issues: The Department of State's Implementation of Its International Postal Responsibilities (GAO/GGD-00-40, Jan. 31, 2000).

that each considers appropriate in carrying out its respective international postal responsibilities.

In our report, and in subsequent testimony before the Subcommittee,[19] we noted that the Department of State had made progress in implementing its UPU responsibilities by taking steps to consult with the Service, other federal agencies, postal users, private providers of international postal services, and the general public. We also recognized the progress made by State in its first year of responsibility for UPU matters and identified opportunities for the Department to improve its process for developing U.S. policy on these matters and the institutional continuity and expertise of its staff working in this area. We identified some shortcomings relating to the timing and notification for public meetings, and the distribution of documents discussed at these meetings, that may have limited the opportunities for stakeholders to provide meaningful input. We also found that State's policy development process on UPU matters resulted in little public record of agency or stakeholder positions, which could make it difficult for Congress and others to fully understand the basis for U.S. policy positions. Further, staff turnover made it more difficult for State to develop the institutional continuity and expertise to fulfill its leadership responsibilities.

We made recommendations to State that addressed these areas. The Department of State has since reported that it has taken a number of specific actions to address the procedural shortcomings we identified. We agree that the Department of State has improved the timeliness and accessibility of information it provides and its efforts to solicit input from interested stakeholders.

Supervisory Pay Differentials

Next, Mr. Chairman, I would like to discuss our ongoing Postal Service work on supervisory pay differentials. At your request, Mr. Chairman, we have begun a review of the complaints, primarily from postmasters, that many of the employees they supervise earn more than they do. Our primary objective is to determine whether any employees earn more than their postmasters do and, if so, why (e.g., overtime, shift differential, etc.). As you know, current Service policy calls for certain postmasters and other postal supervisors to be paid at a higher salary rate than they might otherwise be entitled to if they supervise two or more full-time equivalent craft employees. Because the supervisory pay policy is relevant to the broader concerns addressed in Congresswoman Morella's Bill (H.R. 3842,

[19] Postal Issues: The Department of State's International Postal Responsibilities (GAO/T-GGD-00-63, Mar. 9, 2000).

the "Postmasters Fairness and Rights Act)," we agreed with your office to limit our initial review to postmasters and analyze the pay for other postal supervisors in a subsequent review. Due to the Service payroll system's complexity, size, and lack of documentation, our analysis of postmaster pay has taken longer than anticipated. We have been working with the Service's payroll system officials and expect to resolve these problems shortly and begin our analysis of postmaster pay.

Mr. Chairman, this concludes my prepared statement. I have included a list of our Postal Service products issued since October 1999 in the attachment. I would be pleased to respond to any questions you or the Members of the Subcommittee may have.

Contact and Acknowledgments

For further information regarding this testimony, please contact Bernard L. Ungar, Director of Government Business Operations, on (202) 512-8387. Individuals making key contributions to this testimony included Teresa L. Anderson, Kenneth E. John, Charles F. Wicker, and Hazel J. Bailey.

Attachment

GAO Postal-Related Products Issued During Fiscal Year 2000

U.S. Postal Service: Enhancements Needed In Performance Planning and Reporting (GAO/GGD-00-207, Sept. 19, 2000).

U.S. Postal Service: Electronic Commerce Activities and Legal Matters (GAO/T-GGD-00-195, Sept. 7, 2000).

U.S. Postal Service: Postal Activities and Laws Related to Electronic Commerce (GAO/GGD-00-188, Sept. 7, 2000).

U.S. Postal Service: Diversity in District Management-Level Positions (GAO/GGD-00-142, June 30, 2000).

Breast Cancer Research Stamp: Millions Raised for Research, but Better Cost Recovery Criteria Needed (GAO/T-GGD-00-137, May 25, 2000).

Breast Cancer Research Stamp: Millions Raised, but Better Cost Recovery Criteria Needed (GAO/GGD-00-80, Apr. 28, 2000).

U.S. Postal Service: Diversity in the Postal Career Executive Service (GAO/GGD-00-76, Mar. 30, 2000).

Postal Issues: The Department of State's International Postal Responsibilities (GAO/T-GGD-00-63, Mar. 9, 2000).

Postal Issues: The Department of State's Implementation of Its International Postal Responsibilities (GAO/GGD-00-40, Jan. 31, 2000).

U.S. Postal Service: Changes Made to Improve Acceptance Controls for Business Mail (GAO/GGD-00-31, Nov. 9, 1999).

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Mr. MCHUGH. Our pleasure. Thank you.

As a lifelong New York Giant fan, I immensely enjoyed the performance last night at FedEx Field. But speaking of FedEx, Mr. Postmaster General, it is no secret that your discussions with Federal Express have gained some attention. As I understand it, it was not your intention to make any announcement at the time the media came upon and reported your discussions, but nevertheless, we have a new reality there where a lot of questions have been raised.

In short, what can you tell us about that alliance as it is being called?

Mr. HENDERSON. We, for the record, did not announce a strategic alliance with Federal Express. The discussions were leaked to the media and we decided, Fred and I, rather than to have no comment, that we would actually comment on what we were discussing.

The cornerstone of our discussion revolves around the use of Federal Express's air transportation network, which is not something new to the Postal Service. We today use Emery Air, a subsidiary of CNF, so we are just in discussions with them talking about the possibility of using their air transportation network, which is the finest and most extensive in this country.

As a part of that discussion, we have had discussions with RPS, which is now FedEx ground service, for several years, about the possibility of using a drop-ship rate that exists in the current rate structure for residential delivery of packages. We have continued that discussion with FedEx ground service, and again, that is not something new. It is something that has been ongoing.

The new part is that we did talk to Federal Express about the possibility of selling retail in post offices, allowing post offices to sell FedEx products, and also in the return business to pick up FedEx products if those who use that merchandise want to return it, with the exposure of e-commerce that we would use our residential America delivery network to return those to Federal Express.

These are all just topics that we are discussing. We have reached no agreements yet. We would like to do this in the framework of a strategic alliance. There is no exclusivity involved in this. Anyone who wants to come to the table and talk is welcome to come to the table. We are talking of a similar arrangement to what we have with DHL.

Mr. MCHUGH. On the exclusivity question, you may be aware, for example, that Judiciary Chairman Hyde has written the Justice Department asking them to look at and report back on possible antitrust concerns that evolve out of this proposal. I suspect that is a little hard to do, having no details, but the concept and the question itself, I think, is central to many of the concerns, understandably, that have been expressed.

Did you—let me back up. Obviously, I and others, I assume, like Senator Daschle, who has endorsed H.R. 22, believe that the Postal Service in its unique position is pretty well free of antitrust requirements. That is why we put in H.R. 22 provisions very specifically that would subject the Postal Service to antitrust requirements as they apply to the private sector.

But, nevertheless, did you or anyone in the Postal Service discuss antitrust or legality questions with the Justice Department prior to entering the discussions, or did you intend to do that upon completion of the framework?

Mr. HENDERSON. We intended to go to the Justice Department when we reached an agreement. And independent of that, our general counsel looked at the concept; even though there is no concrete agreement, looked at the concept and concluded with the help of independent counsel that there was no antitrust issue here.

Mr. MCHUGH. You do have strategic alliance guidelines that frankly evolved out of, I believe, in part, the recognition that the General thought the antitrust provisions do not apply, but there had to be some framework and guidelines by which you could enter these.

Was this agreement—and it is hard to say, because it is not complete, but are you putting it together in a way that is consistent with those strategic alliance guidelines; or how are you approaching that?

Mr. HENDERSON. That is our proposal to Federal Express, that we follow those guidelines, similar to the ones that were tested in court earlier, a couple of years ago. But I don't have a response from Federal Express.

Mr. MCHUGH. I guess the answer was, you will, but you haven't, because you are not done?

Mr. HENDERSON. Right.

Mr. MCHUGH. OK. I am going to step out of normal course here, because this is an issue that is of concern to other members. I would yield to other members of the subcommittee at this time if they have a question they would like to pose now. They can certainly pose it on their own time, but now, in this regard.

No members down here? However you want to do it. I don't want to get bad feelings on the last day.

Mr. FATTAH. Well, two things. This is housekeeping. I have an opening statement from Congressman Tierney that I would like to have placed in the record.

Mr. MCHUGH. Without objection, that will be entered in its entirety.

[The prepared statement of Mr. Tierney follows:]

Statement of Congressman John F. Tierney
Postal Service Subcommittee
"General Oversight of the United States Postal Service"
September 19, 2000

Thank you Chairman McHugh for holding this hearing today on General Oversight of the United States Postal Service (USPS), and I thank our witnesses for joining us. Recent reports in *The Wall Street Journal* and *The Washington Post* indicate that the USPS and Federal Express Corporation (FedEx) are engaging in weekly negotiations regarding a broad strategic alliance that could permit FedEx drop-off boxes at post offices in exchange for the USPS contracting with FedEx for their aircraft service in order to deliver USPS express and priority mail, as well as providing for the USPS to return FedEx packages. It is my understanding that details of the alliance will be introduced to the USPS Board of Governors next month.

such action be allowed to occur,

It would seem appropriate that before Congress renders any opinion on this proposal, and that the public and members have the benefit of hearings and detailed congressional discussion and analysis. I would ask the Postal Subcommittee to oppose the adoption of such an alliance until the above-mentioned steps are taken. There are some general concerns that have been raised such as the implications of the USPS/FedEx exclusive drop-off box arrangement and whether or not the USPS

(perhaps a hearing dedicated to this issue alone is the simple solution is not available today.

should be open to a competitive bidding process for drop-off boxes, the cobranding of USPS/FedEx products and competition in the postal industry. For example, it would be useful to discuss how cobranding on a major scale between a Federal entity and a private company would affect public confidence in postal products. Specifically, it would be helpful to review the agreements between the USPS and Emery World Worldwide Airlines and Airborne Express agreements (the former which resulted in litigation and the latter which some analyst claim is not beneficial to the USPS) before embarking on this major FedEx alliance. Regarding competition in postal industry, I am very concerned that consumer rights and choice are protected. It is also important for the Congress to know how this alliance will impact consumer costs. It may also be prudent for the Department of Justice to review the alliance against anti-trust laws and possible anti-competitive behavior.

Mr. Chairman, for these reasons it would seem prudent for this Subcommittee to obtain comprehensive details on this plan and appropriate to conduct this hearing on this matter prior to the end of the 106th Congress and such further inquiries as may be required.

Mr. FATTAH. I would like to reference Chairman Hyde's letter and ask that it be entered into the record, because I think the chairman's letter indicated that it was his opinion that the Postal Service would not be encumbered by antitrust laws, presently, under its configuration. That is how I remember the letter, at least.

If we could agree it would be entered into the record——

Mr. MCHUGH. We agree on both points. I do think that was the chairman's position—however, he was asking for formal review—and it will be entered without objection into the record.

[The information referred to follows:]

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September 18, 2000

Honorable Joel Klein
Assistant Attorney General
Antitrust Division
United States Department of Justice
10th and Constitution Avenue, N.W.
Washington, D.C. 20530

Dear Assistant Attorney General Klein:

On September 7, 2000, the United States Postal Service confirmed that it has been negotiating a strategic alliance arrangement with FedEx. According to news reports, under the proposed arrangement, FedEx would apparently deliver packages with a specific deadline for the Postal Service, and the Postal Service would apparently deliver packages without a specific deadline for FedEx. The other parameters of such an alliance are not clear at this time.

This negotiation raises a variety of antitrust concerns. If the Postal Service were a private entity, any final alliance would certainly require scrutiny by the Antitrust Division. However, as you know, the Postal Service may enjoy antitrust immunity as an instrumentality of the federal government, but that is by no means clear. *Compare City of Loudon v. TVA*, 585 F.Supp. 83, 85-87 (E.D. Tenn.), *aff'd*, 754 F.2d 372 (6th Cir. 1984) (TVA exempt from antitrust laws as federal instrumentality) *with Franchise Tax Board v. United States Postal Service*, 467 U.S. 512, 519-20 (1984) (Postal Service liability presumed to be same as any other business for withholding wages under tax order). Thus, any final alliance may try to use the Postal Service's potential immunity as a shield against antitrust scrutiny. Aside from the antitrust concerns, any such alliance ought to protect the rights of workers for competing companies, like the United Parcel Service, and workers for the entities involved, the Postal Service and FedEx.

As the Postal Service has evolved, I have become increasingly concerned about its uncertain antitrust status. For example, I have also heard competitive concerns raised about its activities with respect to commercial mail receiving agencies. As we go forward, I believe that we must reexamine the continued viability of the Postal Service's potential antitrust immunity if it is to compete against private businesses.

In the meantime, notwithstanding the Postal Service's potential immunity, I believe that you have full authority to review any such alliance because FedEx is clearly not immune. I am

asking that you take a thorough look at the competitive issues raised by any such strategic alliance. At a minimum, no such alliance should be finalized without a full understanding of its competitive implications.

I appreciate your attention to my views.

Sincerely,

HENRY J. HYDE
Chairman

cc: Hon. John McHugh
Hon. Chaka Fattah
Postmaster General William Henderson

Mr. FATTAH. Now, the Postmaster General.

These discussions that you are having with Federal Express, you say, do not have any exclusivity associated with them. You have had discussions with others or are willing to entertain discussions with others vis-a-vis what you see as the viability and the profitability of strategic alliances with entities that may have a capacity similar to Federal Express, like UPS or others; is that correct?

Mr. HENDERSON. That is correct. Yes, we have had—off and on, over the years, we have kept in contact with people like UPS and Federal Express and have had informal discussions about a whole range of topics. So, actually, I had started this conversation with Federal Express some time ago, and it kind of lay dormant for a while; and suddenly we were both interested in it, and we put teams together.

But we are open to discuss with anybody. There is no exclusivity here.

Mr. FATTAH. I think that is an important point. Also, I would imagine it is difficult to have these kinds of discussions, however, in the context of a congressional hearing.

Mr. HENDERSON. It is a little awkward.

Mr. FATTAH. But I think that you can understand the general concern that has been raised when such an alliance between the Postal Service and Federal Express is at least broached in the media. It suggests to the people perhaps that there would be some concern.

But I think that you should be taken at your word that the Postal Service is looking for partnerships among and between any number of different entities to the degree that it helps you meet your goals.

So I want to yield at this time, Mr. Chairman, and revisit this as we go forward.

Mr. MCHUGH. Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman. I appreciate your courtesy so we can talk about this issue all at one time. Something I didn't get to say at the beginning of the hearing is when we were doing the Contract with America and we Republicans thought up term limits for subcommittee chairmen and chairmen, it was a good campaign issue, but in practice it hasn't turned out to be so good.

I would say that the reason I volunteered for this subcommittee the last two Congresses has been your leadership, and although I apologize to you for being a burr under your saddle from time to time, I have done nothing but benefit from your guidance; and even when chastised by you, I know it has been in a way to make me a better Member of Congress, and I appreciate your kindness. Thank you.

Mr. Postmaster General, I have some questions, too. I guess it came as a little bit of a surprise to me. I understand, now that you have described it, but I read about it in the newspapers, and I suppose other Members did. And the reason it came as a surprise is, during our August recess the Postal Service in Cleveland was kind enough to have us all in for a congressional briefing to tell us what was going on with the Postal Service, and I don't remember this specifically being on the list.

But as I heard you respond to the chairman, apparently not only general counsel but an independent counsel has looked at the issue of exclusivity. I understand that.

Let me ask you this: Does the information you have received back from general counsel and the independent counsel spell out what law, regulation or other authority exists for the Postal Service to enter into such an agreement?

Mr. HENDERSON. I don't know that off the top of my head, but I will be glad to provide it to you.

Mr. LATOURETTE. If you could provide that for the subcommittee, I would appreciate that.

Aside from exclusivity, I come to this a little bit as an old county official, and not just exclusive contracts, but noncompetitively bid contracts.

Are you of the opinion that the Postal Service, to enter into a strategic alliance, does not have to come up with an idea; that is, we want someone to do—we are going to take your stuff the last mile and use your air service. Are you of the opinion they don't have to bid that service, you can enter into these discussions?

Mr. HENDERSON. The last mile, there is really no way to bid that. We have a rate that anyone can use today to drop packages at a post office, and we will deliver them the last mile, whether they are FedEx or UPS or DHL. In fact, we do have DHL packages today.

Mr. LATOURETTE. To enter into such a strategic alliance, however, is there any belief that this has to be bid, that you have to come up with a proposal and then bid, that this is the service or the deal you want to enter into with somebody and have somebody come back with the lowest and best price?

Or doesn't that apply to the Postal Service?

Mr. HENDERSON. No, entering into a strategic alliance does not have to be put out for open bid, no.

Mr. LATOURETTE. OK. And I understand that there are discussions, but can you sort of spell out for the subcommittee where you think it is going to go from here? By that I mean, not are you going to make a deal or not, but say you reach a deal. What review and approval processes for this proposed strategic alliance is this deal going to be subjected to before it is finalized, and everybody signs off on it?

Mr. HENDERSON. Well, obviously it would come to the management committee of the Postal Service. I am not personally negotiating the arrangement with Fred Smith. Then, following that, I have made a commitment I would take it to the board of Governors for approval.

Mr. LATOURETTE. OK. And you mentioned Emery in your remarks as well. I am aware of not only the agreement that the Postal Service has with Emery, but also there apparently was a difficulty recently with negotiated amounts in terms of what Emery thought it was going to undertake on behalf of the Postal Service, and they thought they needed more money for—not only the regulation, but the volume that the Postal Service was providing. The agreement was renegotiated; that it is the subject of litigation. That is an accurate statement, right?

Mr. HENDERSON. The litigation has concluded. They filed a lawsuit. "they," being Emery, filed a lawsuit to terminate the contract,

and a judge ruled that they could not terminate the contract, and we are back in negotiations with Emery. The crux of the issue with Emery is the fact that we planned and budgeted on one rate, and their costs were simply higher. And so we feel their costs are too high, and we are going to mutually agree to a way to get out of an arrangement with one another.

Mr. LATOURETTE. I had understood the judge had granted summary judgment and basically said that the Postal Service had until a date certain, October 12, if I remember right, to come back and comply with the agreement, found you out of compliance with the agreement. I am wrong in that?

Mr. HENDERSON. Well, the subject of the lawsuit was to terminate the agreement. The judge said that Emery could not just terminate the agreement. He asked us to go back to an interim rate which we used at one point when we felt that Emery really did have some costs—that we wanted to have a win-win situation, we didn't want a win-lose situation. That is not the way you audit.

But we did an audit of Emery and we found some cost discrepancies; and we asked the IG to do a complete audit, and we told Emery that as soon as that audit is completed that we will settle whatever obligations we both have.

Mr. LATOURETTE. And the strategic alliance or the agreement you have with Emery is smaller in scope than what is being discussed with FedEx, though; is that accurate?

Mr. HENDERSON. It is a different type of arrangement—parts of it are similar. The air transportation piece is similar. There is no plan to have FedEx do distribution as Emery does today. That is contracted out. So it is just a different arrangement in its totality, than Emery. But as I say, the cornerstone is air transportation for both Emery and for Federal Express strategic alliances.

Mr. LATOURETTE. The last question I have, and again I thank the chairman, if I understand your discussions with FedEx ground and the sale of FedEx packages and the return of things ordered over e-commerce through FedEx, are you contemplating that there would be a FedEx box, delivery box, parcel drop-off box, located in the lobby or somewhere within the physical confines of the U.S. post offices in this country? Is that in the scope of your discussions?

Mr. HENDERSON. That is a subject they are discussing with us that we haven't agreed to.

Mr. LATOURETTE. I would be interested in your feeling about that. I understand you have not agreed to it, but how do you feel about that?

Mr. HENDERSON. Well, I would not want a box in the lobby to be perceived by our employees as a complete threat, and it would depend on how much money we can make off of something like that. We are very open to having Federal Express or UPS or anybody else at our counters.

The devil is in the details. How much money can we make off of it?

Mr. LATOURETTE. But, again, the advice you received from general counsel or independent counsel or from whomever you rely on for legal advice is, you could reach a strategic alliance that would allow FedEx, for payment, to put their positions in the lobbies of post offices across the country, and no one else's, unless there was

a similar agreement in place, unless you reached a deal with somebody else to do the same thing.

Mr. HENDERSON. Right. If we don't reach a deal, we won't be able to do it.

Yes, we feel we have the right to sell whatever we want to sell, within reason. We are not selling packaged meat products and things like that, but a strategic alliance is certainly something that we would look at as another source for revenue. We are very much interested in improving our revenue picture. That is an obligation we have as management, and we think this is an interesting way to do it.

Mr. LATOURETTE. Thank you very much.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. I didn't know he was trying to be a burr under the saddle. I thought he was trying to help me strive toward excellence. I appreciated his untiring efforts in that regard.

Let me go back to revenues, because—I am sorry, Mr. Davis from Illinois. I did not see any indication earlier.

My apology, sir. I am happy to yield to you.

Mr. DAVIS. Thank you very much, Mr. Chairman. I want to thank you for yielding. I also want to share the compliments that have been made relative to the manner in which you have conducted the affairs of the committee. I too feel like Ranking Member Fattah, that you have made this side feel much less like a minority and more of a partner, and we certainly appreciate that.

I also want to compliment you, Mr. Henderson, and your colleagues, on keeping the Postal Service in the black, moving ahead, although there are changes in the business climate and certainly changes in technology.

I appreciate the fact that we have the opportunity to discuss the FedEx question right now. Obviously it is a great concern of mine, as well as it is a great concern to some of its competitors. People like United Parcel, who are constituents of mine, in a real way have some serious concerns in terms of not knowing what the details are going to be and having some feeling that there might end up being some disadvantage at which they are placed; and we certainly do not want to see that happen.

As I understand it, FedEx provides very specific delivery and money back guarantees on both its air and its home delivery service. The Postal Service's delivery and refund guarantees are much more limited. How are these differences going to be resolved in the context of shipments that originate in one place or on one network, and then terminate on the other?

Have you gotten into any discussions, do you have ideas about that?

Mr. HENDERSON. We are not commingling the products. We, at this point, don't have any cobranded products, so FedEx will operate the way it normally does, and we will likewise operate the way we normally do.

Mr. DAVIS. Are you saying there would not be instances where there would be joint movement, or where there would be movement at one level part of the way and movement at the other level by

a different entity, the Postal Service in one instance and FedEx in another?

Mr. HENDERSON. FedEx, it is my understanding—and I don't like to answer questions for Federal Express; that is not really what I do—but Federal Express does not intend to share their product, transportation or delivery of overnight packages with us. That is their core business; that is completely separate.

They have talked about using our drop-ship rate at the Destination Delivery Unit [DUI], which is open to anyone, and that discussion began before FedEx bought RPS. That has been ongoing for a long time. The only thing that we would do in that instance would be if it is their decision, we would be delivering the last mile, so to speak, to the residents.

Other than that, the only relationship would be the air transportation of U.S. Postal Service products, much like Emery does today, we would lease their planes for a per-pound rate. Just as a matter of information, we do that with UPS today at Christmastime. We will lease planes that are available.

I mean, that is how the deal works, and it would be constituted under a strategic alliance like we did with DHL.

Mr. DAVIS. It is also my understanding that it is generally the case that the Postal Service requires payment up front of postage before it processes and delivers mail. Is that the general policy that would be applied to FedEx shipments that are handed off to the post office for final delivery?

I am saying the Postal Service, you generally pay first, and then you get the service. Is that going to be the arrangement with FedEx?

Mr. HENDERSON. Well, to the degree that we can, it would probably be some sort of electronic manifesting to tell us how much money they owe us. We haven't worked out the details yet.

But the DDU rate is available today, and right off the top of my head, I am not sure how the customers actually reimburse us for the postage. But it would be a similar guideline for Federal Express. We both have corporate accounts, so all the money isn't paid up front. You have a corporate account where the Postal Service—for example, on Express Mail, for which we can bill you for the postage.

Mr. DAVIS. I have also been trying to figure out in my own mind and determine how much difference there is between a strategic alliance and a contract.

Mr. HENDERSON. Well, a strategic alliance is a little broader. A contract is a fiduciary document that agrees on price; a strategic alliance, you continue to have discussions about where you can have synergy, where you can build off of other folks—off your infrastructure. It is just a broader arrangement.

It is not like a vendor-supplier arrangement. It is a better way, in my opinion, to do business, because you have an ongoing relationship. It is not just about money and service.

Mr. DAVIS. So you maintain that relationship. Does that ongoing relationship in any way preclude—it is almost like being married, I guess, in a way.

Mr. HENDERSON. A little like polygamy. More than one wife in a marriage.

Mr. DAVIS. I mean, but you are precluded from having that same relationship with other entities?

Mr. HENDERSON. No, we are not precluding anyone. If you are talking about UPS, we are happy to talk to UPS. The phone is silent, though.

Mr. DAVIS. So——

Mr. HENDERSON. I can't get them to go out on a date, much less marry them.

Mr. DAVIS. I am not really a promoter of polygamy, but I would think in this instance that it certainly gives me a different level of feeling and assurance that we are not talking about closing the door, that we are talking about other approaches to doing business, but letting the door remain open to competition and opportunity for others to come in.

Mr. HENDERSON. That is correct.

Mr. DAVIS. Thank you very much.

I have got some other questions, Mr. Chairman, if we get to them, fine. If not, I certainly want to submit those and ask that we get written responses to them.

Mr. MCHUGH. Well, if they are as creative as in your last round, we are looking forward to them.

Back to numbers, and as a personal closure remark or remark of closure on this issue for the moment, obviously this is of great interest to this subcommittee, and I think it is fair to say, through many sectors of government and the private sector as to how this is going to play out. We are looking forward to working with you as it unfolds further.

Back to numbers: It was in this subcommittee room about a year ago that we talked about potential revenue losses to the Postal Service deriving from a variety of sources, not the least of which was diversion of first class mail to the Internet. The figure that was used as the extreme was $17 billion potential losses. Some scoffed at that.

In my opinion, some folks who theretofore showed a great deal of knowledge about the issue lost a lot of credibility in suggesting that there was virtually no threat at all. I have never wanted to be more wrong about a question in my life than the fears that I have expressed repeatedly about the potential revenue losses to the Postal Service that, sad to say, we see accruing already.

Mr. Ungar, in your written comments, you cited a couple of figures and examples. You talked about 880 million Social Security checks, tax refunds and other payments normally sent by the Treasury Department that in 1998, 68 percent of that total were sent electronically rather than mailed, and the calculation is $180 million in lost first class mail revenue in that one segment alone.

You then go and discuss a figure supplied, as I understand it by the American Bankers Association, where banks through a concerted effort, and understandably from their business practices perspective, had reduced their mail volume in 1999 by nearly 18 percent compared to just 2 years the previous, their 1996 levels.

My first question, because I didn't see it and I would be interested, do you have a dollar figure for lost revenues that that 18 percent represents as compared to the $180 million on the Treasury mailings?

Mr. UNGAR. No, Mr. Chairman, we do not have that.

Mr. MCHUGH. Mr. Henderson, are you familiar with that figure? Would you have any idea?

Mr. HENDERSON. Would you repeat the question?

Mr. MCHUGH. Yes, sir. The American Bankers Association has reported that in 1998, versus 1996, they had reduced their mailings by first class by 18 percent. I was just curious, how much money does that mean that you, the Postal Service, have lost because they are no longer putting that 18 percent in the mail?

Mr. HENDERSON. They estimate—and I will make this more accurate if my memory is incorrect—about 1 percent of first class mail has been marauded as a result of—I wouldn't call that electronic diversion, but it is changing the business model out there where banks are consolidating.

There are 30 percent fewer banks today than there were in 1990 as a result of bank consolidations. So those two, combined, have had a very slowing impact on the growth of first class mail. You can see, as I said earlier, the growth right now is about 1.3 percent, and it is flat in the last part of the year.

So there is an impact. It is hard to quantify, to reach in there, because we don't have any measure of that. We have a measure, when I say that, of what bills and payments are doing other than by sampling. We are doing the household diary this fall again, where we measure households across the United States. We use that for ratemaking information, and we will get an indication on how much electronic diversion from that survey exists out there.

Mr. MCHUGH. Well, back to Mr. Ungar—I appreciate your comments—is there any reason to expect that that 18 percent by the banks, or that 64—or 68 percent, I guess it was—that were electronically mailed, is the high watermark or is the low watermark? It seems to me intuitively, banks are going to try to reduce that figure more, that both from the perspective of the Treasury service what they would like to see happen, as well as how more and more of their recipients, customers, are going to want to have electronic transfer, that that figure is going to grow.

This is the beginning, rather than the end. Is that a fair statement?

Mr. UNGAR. Yes, Mr. Chairman, I think it probably is a fair statement.

As you are probably aware, there is legislation Federal Government-wide that requires Federal agencies to go more and more electronic in the next several years. So that is certainly going to have a large impact.

In the private sector, I am sure that cost-cutting and efficiency are certainly things that many companies are interested in and that they will certainly pursue; and with greater and greater use of the Internet and more and more competitors out there, wanting and encouraging people to do transactions electronically and pay bills electronically, it is probably going to rise rather than fall.

Exactly where this is going to all end up is a little unclear, but it certainly doesn't appear to be the low mark.

Mr. MCHUGH. Last year I asked you, as I recall, you took the $17 billion figure at, relatively, face value, that that is what the Postal Service suggested could be their ultimate, extreme revenue loss;

and as I recall, you said, well, we didn't verify that, but have no reason to suspect that it is particularly out of line either.

Mr. UNGAR. One point of clarification. We didn't directly deal with the $17 billion. We were addressing the potential or expected decline in volume. I think it was the Postal Service or another organization that really entered into the picture the $17 billion. But it was clear that mail volume was expected to go down and that would translate into some revenue shortfall.

Mr. MCHUGH. You are right. I stand corrected. But it was a reasonable step from mail volume to revenues when you are dealing with first class.

Bill, you spoke about, I believe the figure you stated was a $790 million loss from your fiscal plan for this year?

Mr. HENDERSON. Yes, that is correct.

Mr. MCHUGH. That puts you how much in the hole?

Mr. HENDERSON. Probably in the neighborhood of $100 to $200 million. That is very close on $65 billion in revenue—it could swing either way, but we are pretty sure there is going to be a net loss this year.

I will just give you some numbers. If $790 million is what we missed our plan by in revenue, the growth is down to about 1.3 percent in first class mail.

On the expense side, the gasoline prices, which most surcharge for—we couldn't because we had this elongated rate process—that is going to be about $350 million in surcharges or in higher gasoline prices. Workers' Comp has gone up another couple of hundred million dollars.

So we could have ended this year with over $1.5 billion in the hole. Fortunately, we sensed that in time, and we have cut costs over $1 billion. So getting down as low as a $100 million to $250 million loss was a Herculean effort that the Postal Service accomplished at all levels, especially in the field.

Mr. MCHUGH. Let's talk about what the next step is.

All of us, certainly those people in my district, we measure trips not in miles but by hours, and we hope very dearly that gasoline prices will stabilize. So let's—I don't know if you can do this, but for the moment let's take it out of that equation.

You have other realities, it seems to me, that probably aren't going to go away in the short term. Mail volumes I expect will continue on their current trend, if not become more drastic, and other costs where you have now squeezed quite a bit out.

How are you approaching your fiscal plan for next year? What are you looking at and how do you plan to accommodate it?

Mr. HENDERSON. It is going to be very difficult to break even next year, given the unanticipated costs we have and the softening of the revenue. We haven't included that and taken it to the Governors. We are trying to figure out a way through cost-cutting to at least break even, but right now it is dim, from my perspective, looking at all the cuts we have already made, the administrative cuts that we plan, the productivity numbers.

We have the highest productivity this year that we have had in nearly a decade, and to have a $100 million loss or $200 million loss with that kind of productivity tells you the kind of pressure that the U.S. Postal Service is being placed under.

Mr. MCHUGH. Mr. Ungar, can you give my friend, the Postmaster General, any reason for optimism, or do you pretty much concur with the things he is seeing?

Mr. UNGAR. Mr. Chairman, I think we pretty much concur. I think there are going to be additional pressures.

We know, for example, and certainly Mr. Henderson knows, that negotiations are currently going on with three of the unions. It is probably unlikely that wages will go down. We know that retirement costs are going up, health care costs are also going up. So it doesn't look too encouraging.

It is a positive note, though, that the Service has announced a breakthrough productivity initiative and has recognized it really is going to have to focus on cost-cutting and productivity in order to assure that it can remain affordable and carry out its mission.

Mr. MCHUGH. Cost-cutting, productivity, do you agree that is pretty much—I mean, there are rates.

Mr. HENDERSON. That is right. If we were a private business, you can't live forever off of cost-cutting, and that is how we have lived in the last couple of years. At some point in time, I will be the first to admit there is always opportunity for cost-cutting, but you have to, in order to be viable, be in a business that grows.

As we have said earlier, we view ourselves as a wholly owned government business. We are a business. We have a profit and loss use just like a private company has, and we have a market worth just like anybody else would, and that asset is going to dwindle, in my opinion, unless we have some sort of substantive postal reform.

When I go to meet with foreign postal administrations, they are dumbstruck over the fact that the United States, which is the leader in most every area in the world, for some reason is blind to the requirement of postal reform. The Germans will go private in November, as an example. You talk about alliances, FedEx just announced an alliance with la Poste, the French postal service. Deutsche Poste is buying over 70 percent of DHL; and TPG, the Dutch, they own TNT. So the whole world is changing, and we sit on a 30-year-old structure, and it makes it very difficult for us to operate in this environment.

Mr. MCHUGH. I commend you on this year's—and I commend the workers particularly—on this year's productivity increases.

I have to wonder, given the structure of your business, how much you can rely upon productivity increases to fill this gap? Even under the most rosy of scenarios, technology and such, as rapidly as it is changing, can only go so far. Rates become a point of diminishing return. If your rates go too high, then it affects very dramatically your volume, so it becomes actually a losing proposition.

Therefore, as you mentioned, I believe, in some comments you were making a few weeks ago, there are other cost factors that go to the heart of service, 6-day-a-week delivery, the question of, do you keep a postal infrastructure that I think in an ideal world is very beneficial, particularly in rural communities, where most communities enjoy a postal facility.

Are you looking at those kinds of questions yet as a way by which to address your dilemma?

Mr. HENDERSON. Not yet. We are trying to maintain the obligation of what we define as universal service. That is, we go by your

house every day, 6 days a week, whether you have one letter or you have 50 letters, but ultimately, down the road, the issue of universal service and affordability—you know, we have talked about affordability, growth and reform, but the issue is affordability. I believe there will be serious discussion of postal reform based on price increases, that people, customers, just will not want to tolerate the general price increase being *X* amount, and then there will be a hue and cry for reform.

Unfortunately, that could have been avoided if we had had postal reform earlier. But it has in the past, and it appears this country now is going to require a crisis before we have serious action on reform.

Mr. MCHUGH. Thank you. I appreciate the members bearing with me.

Mr. Fattah.

Mr. FATTAH. I think that hopefully we will not need a major crisis before we move forward, and obviously the specter of a strategic alliance, as it has been termed, between the Postal Service and FedEx, I assume part of the nature of having such a discussion in public in some ways suggests that you seek to entice others to be more forthcoming and engaged in these discussions. Needless to say, I think that the Congress is obviously grappling with where we are in the sense that, on one hand, we want the Postal Service to be an independent agency; on the other hand, we—at least speaking for myself, and I think for the majority of the Members of the U.S. Congress—fully intend that universal service be continued under all circumstances, irrespective of cost efficiencies associated there within the most rural areas of these lands. So there are some stresses and strains as we go forward.

I think I heard you say, that cost containment is the first prong of your strategy. You think you have reached a point of diminishing returns relative to how much costs can be cut within the Postal Service operation, even though, obviously, just in terms of from a rationale basis, there is always something more you can cut. But you are getting close to that point.

The other side of this is revenue growth. I would like to hear you speak a little more about your view about how you grow revenues within the context of e-business and all these other problems that exist, since that is part of the challenge you are going to have to meet.

Mr. HENDERSON. Yes. Let me correct something on the cost-cutting side.

I think there are plenty of costs that can be taken out of the Postal Service; it just happens to be painful when you do it. But I think there is a lot of money to be made in cost-cutting and productivity improvement.

In revenue, it is kind of a mixed image of what the future holds. Last fiscal year, we lost substantial volumes to the Internet in advertising mail. The Internet became the darling of the business world, and a lot of money was diverted from direct mail advertising to Internet advertising. And it was not very successful, especially during the fall mailing season. Last year, a lot of cataloguers used the Internet without a catalog via direct mail, and the results were

disastrous. So to some degree that mail has returned to the Postal Service. We are seeing growth in direct mail.

We think there was opportunity prior to the Internet revolution to continue to grow advertising mail in first class. Historically, it had been—the fastest growing segment of first class mail had been ad mail. So we see advertising as still having a strong future.

I don't think it is "if," but "when" bill payment and presentment migrates to the electronic platform. The reason I say that, I think the large billers—not necessarily the banks, but—I think the banks are in here, but the large billers of America, the AT&Ts and American Expresses and Visa's and companies like that, there is a real financial advantage for them to go public. AT&T, it costs them about $1.75 to send you a bill. That doesn't include the postage you put on to return it. I think the estimate at AT&T was, $1 billion could go to the bottom line if they could get all of the bills electronic.

The adoption of that is a whole other bag. There are varying numbers of opinions. So depending on what happens with electronic bill payment and presentment, that will determine the fate of first class mail, and it will have a huge financial impact on the U.S. Postal Service.

Mr. FATTAH. You have in a tentative way moved into that sector, right?

Mr. HENDERSON. That is correct.

Mr. FATTAH. At least in terms of billing, how is that coming, or what could you tell the committee about that?

Mr. HENDERSON. Well, that is just a part of what you have to do in today's business model. You have to eat your young every once in a while. We had e-bill payment and presentment.

Mr. FATTAH. From polygamy to cannibalism.

Mr. HENDERSON. It is a vicious world out there. We have about 15,000 customers now on electronic bill payment. I don't have the revenue figures off the top of my head. But all of the e-commerce initiatives are probably, if you total them all up, somewhere in the neighborhood of $10 million. So really no one is making a whole lot of money out there on e-commerce today except for the people that build the infrastructure.

Mr. FATTAH. And the last prong is legislative reform, on which we have heard your views today. Let me yield back to the chairman.

Mr. MCHUGH. I thank the gentleman, the gentleman from Ohio's forbearance. I would like to yield to the vice chair of the committee, the gentleman from South Carolina, Mr. Sanford, if he has any questions at this time.

Mr. SANFORD. Let's see here.

Mr. MCHUGH. You could say nice things about me.

Mr. SANFORD. That is exactly right.

Mr. LATOURETTE. I tried that. It didn't work so good.

Mr. SANFORD. I will hop in for a minute. I thank the chairman very much. I would say thanks because this may be one of the last chances I will get simply to say thank you. It has been awfully, awfully impressive to see the way that the chairman has handled this committee, and in particular, the way he has consistently pushed toward making the Postal Service more competitive. I admire that,

and I just wanted to publicly say that, since this will be one of the last chances I get.

Mr. MCHUGH. Thank you, Mr. Sanford.

Mr. SANFORD. Just a couple of different thoughts.

I have been awfully impressed during a couple of different visits, Bill, with your commitment to the Postal Service and to its employees in making a difference. The one thing, though, I would take exception with is—one of your comments just as I walked in, and I apologize for being late, was, we are just a business wholly owned by the U.S. Government. We are just a business.

I would actually, unfortunately, have to take great exception to that. And what is interesting to me about that, if that was the case, apparently before I got here we were asking a bunch of questions about this proposed FedEx, Bill, and I don't think if you were just a business, you would be answering those questions; you would just be doing it.

Similarly in a business, I think about going out and dropping a product line, you just drop the product line because it doesn't make sense and you move on. Your hands are tied; with universal service, you cannot drop unprofitable routes, though in a business sense or a business model, you would certainly do that.

So I think you are somewhere between being just a business and being something else. I don't know what that something else is. That is what puts a number of us in a real confusing spot, because we have agreed very much with the chairman's efforts to move to making the Postal Service more competitive; and yet had an internal struggle, as a conservative, with how do you give this something else—businesslike responsibilities, businesslike freedoms—but recognize the fact that in essence it is something else? And it does have some monopolistic powers and some advantages that nobody in the private business world has?

So I also wanted to touch on that theme, just because it has been a very frustrating spot to be in as one who has been sort of gumming up the works of your very valid efforts, and your very valid efforts to make this place more competitive.

On that front, I would say this: If you think about what happened in, let's say, Norway or Germany or Australia or New Zealand and how they moved toward privatization, what was it that they did differently, or have they just sort of merged public with private? What was it that they did differently so they were able to pull this off politically without private interests going wild?

Do you have any insight to help me understand that a little bit?

Mr. HENDERSON. Let me go back to the business part. I agree with you that there is ambiguity in the nature of the definition of the Postal Service. Even though we are forced to, within our own regulatory environment, operate like a business, there are things we don't do, you are absolutely correct, because of our unique status. So I would agree with that assessment.

Most of the postal services that are going private have been given broad pricing freedoms, they have reduced the size of their monopolies, to eventually phase them out, and they have been allowed, prior to going public, to act just as you were describing earlier, as a business. But there have been unique circumstances to each one.

The Dutch post, for example, is a very small entity and it has gobbled up outside businesses and it is just a part of the privatization of their government. The German post received an infusion of money at the consolidation of East and West Germany in which they had all the property, and I think they testified at one of the hearings that they received all the property that the East Germans had and they were able to use that cash to make acquisitions. They are one of the largest logistics companies in the world today.

The New Zealand post moved because there was an economic crisis and they had to change all of government. Australia had a problem with labor that had to be solved, and in the course of that, their post was liberalized.

So there are kind of unique reasons. And the private sector does scream when that occurs. I can understand that; if I were in the private sector, I wouldn't want a $65 billion giant cut loose on my market. That is perfectly reasonable to understand they will do that.

I look at it through postal eyes and say, if we are not given some freedom, then this Postal Service you enjoy today is going to be damaged in the future.

It is a difficult position to be in, I understand that. I have talked with UPS about that, and I have talked with Federal Express about that, and they have grave concerns about what we would be allowed to do. But I think all would agree that a healthy Postal Service is in the best interests of the American public, and we think you really need to take a close look at this.

Mr. SANFORD. I would say toward that end, I was looking at the numbers here, which was first class mail accounts for 67 percent of your contribution rate, and yet the rate of growth of that first class mail is basically somewhere between 1.5 and 2.5 percent, yet you look at cost structure going against you. It is a trap; unless you change something, you have a math trap coming your way.

That brings me back to, if you don't grow the revenue size—Letterman has his Top 10 list. What would be your Top 10 list in terms of expenses that you would look at; in a strictly hypothetical sense, what would be the Top 10?

Mr. HENDERSON. We have already targeted that. One would be administration, just the size of our infrastructure and overhead. A second one is transportation; we have a $4 billion transportation budget. We could take eventually—and I am not saying we are going to do this, but we could take everything out of the air. We could have only surface transportation in this country, which is a lot cheaper than air transportation, which would impact the organization. Finally, we could close processing centers and consolidate them.

We right now are guided by service requirements. In other words, we, as all of you know, have very high scores on our externally measured first class mail service. We prided ourselves on that and over the last few years, we have shown an 11-point improvement.

We are ranked the highest agency in government in public approval. We have 94 percent ratings. We are trying not to put any of that in jeopardy. We don't want to be viewed in a negative way.

But somewhere down the road we are going to have to raise prices or cut into the quick of the Postal Service, so to speak.

I will give you an example just one off the top of my head. If you look at the financials of the Postal Service, our net income goes like this. It looks like a hump; in the middle of the year—we make all of our money by the middle of the year primarily because the infrastructure is full of volume. If there was some way to incentivize the volume in the last half of the year to keep that infrastructure full, you are looking at the difference between making $100 and making $2 billion or $3 billion, which would be, I guess, very useful for maintaining the Postal Service.

So it is not like you are just being cut loose in the private sector to go take packages away from the package delivery companies. I am talking about improving the pricing methodology for our own products. Ad mail would be a great product to reduce the price on in the last half of the year in order to stimulate the use of direct mail by businesses around America, so that you could fill up your tank, so to speak, and make some money.

We don't get inefficient in the last part of the year. We just can't adjust the infrastructure enough to offset the decline in the growth of volume.

Mr. SANFORD. Thank you.

Mr. FATTAH. Could I ask you one quick question? We have 40,000 post offices, right? How many letter carrier routes do we have?

Mr. HENDERSON. I am going to say 350,000 city carriers.

Mr. FATTAH. How many of those are profitable?

Mr. HENDERSON. I couldn't give you that information off the top of my head.

Mr. FATTAH. A percentage?

Mr. HENDERSON. I can tell you that of the 40,000 post offices, the 26,000 smallest post offices, it costs over $2 bucks to bring in $1. That is just the math.

Mr. FATTAH. Essentially what we have is, we have urban post offices subsidizing rural post offices?

Mr. HENDERSON. To some degree, that is right.

Mr. SANFORD. Now you are getting personal.

Mr. FATTAH. I am not trying to be personal, I am just trying to followup on some of the questions that were asked. Because, one of the ways to get at some of this—since some part of what you are doing is a public service, is to try to isolate what those costs really are and to deal with them as a public good or a public service and not have them hidden in the apparatus of the Postal Service.

So I would be—we will have some future discussions about this. Thank you.

Mr. MCHUGH. Will the gentleman yield to me?

The ranking member raises an excellent point, and that has been the point that we have been trying to illustrate for 6 years with respect to this particular aspect.

Let me say to Mr. Sanford and Mr. LaTourette, I have no problem at all with your concerns. Both of you gentlemen have dealt openly and honestly with me and with the subcommittee, and where we have not been able to agree, that is life. But I do have a concern about some members who are turning their backs on

meeting this challenge because they either don't recognize or refuse to admit the very point that the ranking member just made.

If we allow this to continue, there are going to have to be some extraordinarily painful decisions made, and they will particularly affect rural areas. Because, you are right, if you look from a cost and income perspective in general terms, urban areas are subsidizing those rural post offices.

Now, I happen to think that is perfectly acceptable, but you cannot enjoy that kind of cross-subsidy, if you will, you cannot expect high cost, low volume, low revenue routes and deliveries, i.e., rural areas, to experience the same kinds of services they enjoy today absent our doing something different. And I represent rural areas, and it is invaluable both as a means of communication and as a means of social and economic fabric in those communities, and I don't want to see them go away. But that is where we are headed, and that is why the general issue of postal reform is so very important.

And we have spent 6 years probing it. The Postal Service does too good a job to say, thanks, see you later. I don't think our constituents, the American public, will allow us to do that. I pray to God they will not. But as the Postmaster General said, and as Mr. Sanford I think rightly underscores, there are legitimate concerns expressed by the private sector that that reform should be attended with changes that level that playing field that Mr. Henderson has admitted time and time again is skewed in certain aspects to their unfair benefit.

That is what it is about. That is just an editorialization.

With that, I would go to Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman. I, too, as I listened to the discussion, have a great deal of concern about the generalized condition of the Service and the complexity of tough decisions that are going to have to be made if we are to keep the system alive, and especially if we are to continue to guarantee or even provide some semblance of universal service.

I have a need to shift a bit in terms of something that is currently taking place and ongoing.

Mr. Postmaster, I have recently been made aware of, and I am greatly concerned about, what appears to be a very controversial procurement for the Postal Service's direct marketing sales support advertising contract. I have been told that an incumbent DraftWorldwide, which is a constituent of mine, was prohibited from participating in the final solicitation round of competition due to their refusal to provide what their attorneys deemed to be confidential information that would put them in violation of their contractual relationship with other clients.

My question is, if that was the case, did they bring that to the attention of the Service and did they provide any alternative way of the Service getting that information?

Mr. HENDERSON. They didn't bring it to the attention of the service during the process. They did later on. In fact, I talked to the president of DraftWorldwide. The problem is they should have raised that issue if it were a legitimate issue in the beginning. There was a guideline that said, and the other responders to the RFP provided this kind of information, that if you did have a con-

fidentiality agreement that you could blank out any references to the organization and you could submit it just as a case study without naming anyone. That specific question was in the guidelines.

They have then filed a complaint over the process, and we will legitimately process that complaint. You have my assurances on that. If there was any impropriety, we will correct it. But to my knowledge, and I've had the general counsel look at this, the IG is now looking at it I think maybe at your request. If there is, we will get to the bottom of it.

Mr. DAVIS. Yes, we were so concerned about it that we actually did, in fact, request a full IG investigation. It just sort of appeared to me that even—and I guess all of the other entities did in fact comply. But if you white out the name, I am not sure to what extent that that really guarantees still confidentiality. I'm saying, if I'm talking about a person who might be running for President whose father was President—I don't have a name but——

Mr. MCHUGH. Adams.

Mr. DAVIS [continuing]. A person who is Vice President and currently running for President or something that wobbles like—it just seems to me that I don't know how confidential that might end up being. I would really like to see if I could, and I don't know if it is possible, the responses from the others who were in fact in competition.

The other question that I've got, if a company has been determined the top of the line for 5 years and has been determined to be No. 1 by the experts in the field, it seems to me that it would be very difficult for them not to reach the point of being in the final solicitation based upon their track record of performance, based upon what they have consistently done. Do you have any response to that?

Mr. HENDERSON. Well, it's based on their proposal, the fact that they were a contractor prior with Postal Service doesn't necessarily assure they are going to be a contractor in the future.

I happened to look at the scores, because you had raised this issue with me, of the six individuals who were cross functional who reviewed their package, and they were consistently low and in fact were the lowest rated. So there was something wrong with that submission. Whether it was they felt they had the contract because they had done the business—but in advertising it really is about new ideas and new thoughts and what you bring to the table in brainstorming. So, absent some different information from the IG, I just assumed that they took our business for granted and didn't do as good of a job as they might have on the submission, because there was no one source of low grading. It was across the board.

I looked at the notes the folks used, and then I interviewed one of them—I say interviewed. I had a conversation with one of them in passing. I said, describe for me what happened here. And he said it was a very poor submission. And you can't overlook the hard work of a new organization because one that you have existing took you for granted. I think that is what happened. I know they're upset. But we do this every few years. We have our advertising agencies up for renewal. We let other agencies have a shot at it.

Mr. DAVIS. Let me ask, I understand that the process suggests that if there is a formal complaint—I understand that they have

actually formalized a complaint—that this stops the action for the moment. Has the contract now been let or is work being done?

Mr. HENDERSON. Yes, it is my understanding—let me go back to the first point. When a formal complaint is filed, the process is not stopped unless there is an obvious—unless everybody sees that there's a real problem. In this case, before the complaint was filed we had the general counsel review the entire process. Actually, the IG participated in the process as kind of a watchdog. So we would not stop the process as a result of their complaint because we don't think there is anything to it. And we began negotiations with the successful folks. I assume that they are either near conclusion or are concluded and it has just not been pubically announced.

Mr. DAVIS. So you're saying that that doesn't automatically stop the process. It stops it if you determine——

Mr. HENDERSON. If we found a complaint was legitimate, we would rectify it. As I say, they complained to us informally first; and since I know the players who are involved here I had it reviewed by our general counsel.

For example, they had a whistle-blower, so we interviewed that person and promised no retribution of any type. And there was just nothing there. And, as I said, I talked with one of the people who interviewed—who was on that review team, and I looked at the notes of everybody. And there's no substance to what they're saying. It would be inappropriate for us to hold up awarding a contract since we're dark now really. We are out of a contract. We need to advertise in this period.

Mr. DAVIS. So the contract is actually awarded? People are now doing work?

Mr. HENDERSON. I think it's been assigned. I'm not sure. Which means it's awarded but not publically announced. There has been no public announcement on it yet.

Mr. MCHUGH. Does the gentleman yield?

Mr. DAVIS. Yes.

Mr. MCHUGH. I have a Postal Service news release here dated September 11 entitled, Postal Service Announces New Ad Agency Contracts, listing one, two, three, four, five, six, seven——

Mr. HENDERSON. That's the minority based contracts. We had an Asian, a black and a Hispanic company that we announced out at the postal forum at the press conference, but that's not the——

Mr. MCHUGH. That is not all total?

Mr. HENDERSON. That's not what our discussion is about.

Mr. MCHUGH. Well, then I apologize. Some are listed clearly as minorities; others are not. But if that's what they are, that's what they are. I yield back.

Mr. DAVIS. Let me just—am I understanding that this news release is strictly for minority contracts?

Mr. HENDERSON. Let me read that news release before I say that. I know we had a news conference. I apologize. I just did not attend the news conference out at Anaheim in which we announced Bravo——

Is this the news release? That one wasn't released.

Mr. MCHUGH. This one?

Mr. HENDERSON. Yeah. That's what they're telling me. I don't know. I haven't read it.

We did not release this news release. This thing inadvertently went to our Web page. We pulled it off after about 50 minutes. This is not supposed to be in the public view. The contracts had not been negotiated as of this point in time.

It's amazing. You get information I haven't seen.

Mr. DAVIS. Well, I guess that happens sometimes.

But let me—after the IG investigation, should the investigation turn up a mis-step or something that might have occurred, even unintentional or whatever, what happens then? I mean——

Ms. CORCORAN. We would send a report to the appropriate party—probably in this case it would be the Vice President for Purchasing—with recommendations as to what should happen. It is management who then takes whatever action is appropriate, based on our recommendations. If they disagree with our recommendations, we would go back and we would talk to management and we would raise it through the appropriate levels within Postal Service if we thought it was serious enough.

Mr. DAVIS. So it's possible that, even though an investigation might turn up something, the process could take so long until much of the action would have been completed? Is that sort of what I am hearing? Kind of like an election, you know, when you question the outcome. I have never known anybody to get put back in office even though they—in the outcome they have turned up that a few votes were lost here, there, whatever.

Ms. CORCORAN. We were called into this about a week or so ago even before we had gotten the call from your office. Bill had actually talked to me and said that there were some issues. So we put some people on it. We have dealt with various parts of it, and we're still looking at the systemic part. The systemic view of the overall operation and what happens is something that would be a longer type review.

You are correct that, in terms of an election, no one gets put back in office. I mean, we might say that there has been something done that was incorrect and we would make more systemic recommendations to Postal as to how they would decide that they needed to deal with the issues. Your constituent could decide that they wanted to pursue it further through court using some of the information that we had in our report—as evidence to support this claim but that would not be a short thing.

Mr. DAVIS. So the only real possibility of serious redress would seemingly be that the contracts not implemented or not be implemented without the assurance that everything was appropriate and was done appropriately.

Ms. CORCORAN. Well, it is my understanding that they're currently in an appeal process and that appeal process should identify anything that might have been irregular within the entire process. The Postal Service would have their own process for dealing with that.

Mr. HENDERSON. As I say, we have looked at all their allegations, and there was nothing there. They're dead wrong from our perspective. We have a financial obligation when we sign these contracts with these other organizations to begin doing work with them. So you're almost damned if you do and damned if you don't kind of deal. We're going to get sued one way or the other. We

know that. We would like to be on the side of justice here instead of on the other side.

Mr. DAVIS. So you're saying that your preliminary findings suggest that there isn't much, but the IG investigation goes more in depth, and even with that there is an appeals process that is under way. And if there is no resolution, ultimately, in all likelihood that would become a case for our judicial system.

Ms. CORCORAN. I really think we're talking about a number of different issues here. The appeal process is one process, and it's a Postal Service process. And as we go about doing our various reviews, we'll take a look at that overall appeals process; not just for this particular job but, overall, does that appeal process work appropriately?

Then to meet the request that you have, we're doing some additional work, and we will see what we can do there. We've also done some work with what Postal Service had brought to our attention 2 weeks ago. We've given them some information, and told them we didn't see any issues on that.

So we're continuing on several different directions. But the ultimate is that right now, I don't think any of us are seeing something that's going to bring any immediate relief based on what we're seeing.

Mr. DAVIS. Thank you very much.

Mr. Chairman, I understand Mr. Fattah has some questions that he wanted to submit, written questions for the record that he would like to get a response to.

Mr. MCHUGH. As our normal practice we will a have a number of those to which we'll append Mr. Fattah's questions.

I would say as well Mr. Davis was very forthcoming in his association with this particular firm as a constituent organization of his. To my knowledge, I have never heard of DraftWorldwide prior to this issue. And admitting that a little knowledge is a dangerous thing and I therefore am a very dangerous person in this regard, we have their side of the story. But, in reviewing it, it does raise some concerns, a logical question about a company who provided this service for 5 years and is not even qualified to submit a bid. We weren't talking about awarding the bid but submitting it.

The other particular question that I had was relating to a phase two pre-qualification that was never contemplated originally. And having had a little experience in municipal contract negotiations, you do that that buys you a lawsuit no matter which way you turn. So I think it has some important ramifications, obviously, for DraftWorldwide, but I think, as the Inspector General just pointed out, to ensure that the contract process used across the Postal Service universe is as appropriate as it can be. I know that the Postmaster General shares that concern, and it was for that reason that I signed that letter happily with Mr. Davis. And we're looking forward to your report, Miss Corcoran.

Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman. And if I could go back for a minute I would like to ask unanimous consent to submit for the record a copy of Judge Reginald Gibson's decision of August 25th this year in the case of Emery Worldwide versus the United States.

Mr. MCHUGH. Without objection, it is so ordered.

[The information referred to follows:]

*2000 U.S. Claims LEXIS 170, **

EMERY WORLDWIDE AIRLINES, INC., Plaintiff, v. THE UNITED STATES, Defendant.

No. 00-173C

UNITED STATES COURT OF FEDERAL CLAIMS

2000 U.S. Claims LEXIS 170

August 25, 2000, Filed

DISPOSITION: [*1] Defendant's motion to dismiss Counts I - V DENIED. Plaintiff's motion for summary judgment GRANTED in part and DENIED in part. Defendant's motion for summary judgment GRANTED.

CASE SUMMARY

PROCEDURAL POSTURE: In a contract dispute involving plaintiff's operation of a delivery network for defendant's Priority Mail program, defendant moved to dismiss five counts of plaintiff's complaint and for summary judgment on the sixth count. Plaintiff cross-moved for summary judgment requesting declaratory relief forcing defendant to comply with the renegotiated pricing terms of the contract or to allow plaintiff to cease performance.

OVERVIEW: Plaintiff sought summary judgment requesting declaratory relief forcing defendant to comply with the renegotiated pricing terms of the parties' contract or allowing plaintiff to cease performance. Defendant sought to dismiss counts one through five of the complaint for lack of subject matter jurisdiction and cross-moved for summary judgment on count six (concerning plaintiff's right to cease performance). The court retained jurisdiction, rejecting defendant's mootness and prudential arguments for dismissal. It granted plaintiff's motion for declaratory relief as to counts one through five, short of deciding whether defendant's actions constituted material breach, a strictly legal issue. It ruled that plaintiff was not entitled to cease performance because the totality of the evidence presented fell short of proving that defendant irrefutably breached the contract and the contract's dispute clause covered the parties' remaining disputes. Thus, the court ordered plaintiff to continue performing under the contract and granted defendant's motion as to count six.

OUTCOME: The court retained jurisdiction, denying defendant's motion to dismiss counts one through five of plaintiff's complaint. It granted plaintiff's motion for summary judgment requesting declaratory relief as to those counts, short of determining whether defendant was in material breach, a legal issue. It ordered plaintiff to continue performing under the contract, granting defendant's motion for summary judgment on that issue.

CORE TERMS: pricing, provisional, summary judgment, motion to dismiss, enforceable, volume, cease, moot, subject matter jurisdiction, declaratory relief, audit, status conference, redetermination, mootness, material breach, prudential, variation, negotiate, rate increase, negotiation, breach of contract, fixed price, complying, genuine, mail, exercise jurisdiction, contracting, evidence presented, matter of law, moving party

CORE CONCEPTS - Hide Concepts

Civil Procedure : Jurisdiction : Jurisdictional Sources
Jurisdiction over the subject matter in a case involving (1) disputed contract issues with the United States, and (2) a contract that contains a clause which provides that it is to be governed by the Contracts Disputes Act of 1978, 41 U.S.C.S. §§ 601-13, is initially conferred on the United States Court of Federal Claims by the Tucker Act, 28 U.S.C.S. § 1491, and U.S.C.S. § 609(a)(1) of the Contract Disputes Act.

Civil Procedure : Jurisdiction : Jurisdictional Sources
Under the Tucker Act, 28 U.S.C.S. § 1491, the United States Court of Federal Claims has jurisdiction to render judgment upon any claim by or against a contractor under § 10(a)(1) of the Contract Disputes Act, including certain specific kinds of non-monetary disputes, and other non-monetary disputes on which a decision of the contracting officer has been issued under § 6 of the Contract Disputes Act. 28 U.S.C.S. § 1491(a)(2).

Civil Procedure : Pleading & Practice : Defenses, Objections & Demurrers : Motions to Dismiss
When evaluating a motion to dismiss, the court must construe the allegations of the complaint favorably to the pleader. Evaluating the complaint in this manner is required regardless of whether the motion to dismiss is one for failure to state a claim or for lack of subject matter jurisdiction.

Civil Procedure : Pleading & Practice : Defenses, Objections & Demurrers : Motions to Dismiss
If a motion to dismiss for lack of subject matter jurisdiction challenges the truth of the jurisdictional facts in the complaint, the court may look beyond the pleadings to consider all available evidence in order to determine jurisdiction. Similarly, if the court has doubts regarding jurisdiction, it may look at all the evidence presented to satisfy itself regarding the jurisdictional facts. Indeed the court may, and often must, find facts on its own.

Civil Procedure : Jurisdiction : Subject Matter Jurisdiction
Civil Procedure : Pleading & Practice : Defenses, Objections & Demurrers : Motions to Dismiss
Subject matter jurisdiction may be challenged at any time by the parties, the court sua sponte, or even on appeal. The plaintiff bears the burden of establishing subject matter jurisdiction and must do so by a preponderance of the evidence. If a defendant challenges jurisdiction, the plaintiff cannot rely merely on allegations in the complaint but must instead bring forth relevant, competent proof to establish jurisdiction.

Civil Procedure : Pleading & Practice : Defenses, Objections & Demurrers : Motions to Dismiss
The court's task when evaluating a motion to dismiss for lack of subject matter jurisdiction is not to decide whether the plaintiff will ultimately prevail, but whether he or she is entitled to offer evidence to support the claims. Therefore, after a review of the factual allegations of the complaint, a petition should be dismissed for lack of subject matter jurisdiction only if no set of facts contained therein would, if proved, entitle plaintiff to relief in the court.

Constitutional Law : The Judiciary : Case or Controversy : Mootness
The mootness doctrine originates from the "case or controversy" requirement of U.S. Const. art. III. If a plaintiff's allegations become moot for some reason, there is no justiciable "case or controversy" a court can decide and, therefore, such court is divested of subject matter jurisdiction.

Constitutional Law : The Judiciary : Case or Controversy : Mootness
The burden of demonstrating mootness is a heavy one.

Constitutional Law : The Judiciary : Case or Controversy : Mootness
The mootness of an action relates to the existence of a basic dispute between the parties.

Constitutional Law : The Judiciary : Case or Controversy : Mootness
A case becomes moot when there is no reasonable expectation that the alleged violation will recur, and interim relief or events have completely and irrevocably eradicated the effects of the alleged violation. A defendant's voluntary cessation of a challenged practice or conduct does not necessarily deprive a federal court of its power to determine the legality of the practice. The heavy burden of establishing to the court that the challenged conduct cannot reasonably be expected to start up again lies with the party asserting mootness.

Civil Procedure : Jurisdiction : Jurisdictional Sources
Courts can decline to exercise jurisdiction for prudential reasons, even if jurisdiction is otherwise proper. The decision whether to do so rests within the sound discretion of the trial court.

Civil Procedure : Pleading & Practice : Defenses, Objections & Demurrers : Affirmative Defenses
He who comes into equity must come with clean hands.

Civil Procedure : Summary Judgment or Summary Adjudication : Summary Judgment Standard
See U.S. Ct. Cl. R. Civ. P. 56(c).

Civil Procedure : Summary Judgment or Summary Adjudication : Summary Judgment Standard

In order for a court to grant either party's motion for summary judgment, the court, must find that there are no genuine issues of material fact and that the prevailing moving party is entitled to judgment as a matter of law. A "genuine dispute" is one in which a reasonable jury, or a reasonable judge, could return a judgment for the nonmovant.

Civil Procedure : Summary Judgment or Summary Adjudication : Burdens of Production & Proof
The burden is on the moving party to show that (1) there is no genuine dispute as to any material fact and (2) it would be entitled to a directed verdict at trial. Any doubt as to factual issues must be resolved in favor of the party opposing summary judgment, to whom the benefit of all presumptions and inferences run.

Civil Procedure : Summary Judgment or Summary Adjudication : Summary Judgment Standard
Summary disposition is appropriate only if there is no genuine dispute over a material fact. A material fact is one that might affect the outcome of the suit under the governing substantive law. Disputes over facts which would not determine the outcome are immaterial and, therefore, will not preclude the entry of summary judgment.

Civil Procedure : Summary Judgment or Summary Adjudication : Burdens of Production & Proof
On a motion for summary judgment, initially, the burden is on the moving party to produce adequate evidence showing that there is no genuine issue of material fact supporting the non-movant's case. This burden may be discharged, and then shifted, if the moving party demonstrates that there is an absence of any evidence to support the nonmoving party's case. If the moving party makes such a showing, the nonmoving party must, if it desires to avoid an adverse judgment, demonstrate that a genuine factual dispute exists by presenting evidence which establishes the existence of an element essential to its case upon which it bears the burden of proof.

Civil Procedure : Summary Judgment or Summary Adjudication : Supporting Papers & Affidavits
Civil Procedure : Summary Judgment or Summary Adjudication : Summary Judgment Standard
In reaching a decision on summary judgment, the court is not to weigh the evidence, nor make credibility assessments, nor seek the absolute truth of the matter. The role of the judge is simply to determine whether there is a genuine issue for trial. When deciding a motion for summary judgment, the judge must determine whether the evidence presents a dispute or contrary positions among the parties sufficient to require submission to a fact-finder, or whether the issues presented are so one-sided that one party must prevail as a matter of law. Pursuant to U.S. Ct. Cl. R. Civ. P. 56, a motion for summary judgment may be decided by the judge based upon the totality of documentary evidence, in addition to the pleadings, on file with the court. There is no requirement that the trial judge make actual findings of fact, just simply a determination of whether or not there are genuine issues of material fact in existence.

Show Headnotes

COUNSEL: W. Stanfield Johnson, Washington, D.C., attorney of record for plaintiff.

Kyle E. Chadwick, Washington, D.C., with whom was Assistant Attorney General David W. Ogden, for defendant.

JUDGES: REGINALD W. GIBSON, Senior Judge.

OPINIONBY: REGINALD W. GIBSON

OPINION: OPINION ON DEFENDANT'S MOTION TO DISMISS AND THE PARTIES' CROSS-MOTIONS FOR SUMMARY JUDGMENT

REGINALD W. GIBSON, *Senior Judge*:

INTRODUCTION

Plaintiff, Emery Worldwide Airlines, Inc. ("Emery"), contracted with the United States Postal Service ("USPS" or "defendant"), in April of 1997, to operate a nationwide network for mail delivery under defendant's Priority Mail service program. Due to a multiplicity of reasons, plaintiff and defendant renegotiated a number of the contract terms, the most important of which concerns plaintiff's pricing model or compensation. Emery's April

3, 2000 six count complaint, as amended on May 22, 2000, requests declaratory relief which would have the effect of forcing defendant to comply with the August 4, 1998 renegotiated [*2] pricing terms of the contract or, alternatively, allowing plaintiff to cease performance. Emery's complaint requests solely equitable relief and is not, at this time, seeking damages.

Defendant, by its April 10, 2000 motions, requests that the court dismiss Counts I, II, and V of plaintiff's complaint because they are moot and Counts III and IV for prudential reasons. Additionally, defendant requests summary judgment on Count VI, which is that the court order plaintiff to continue performance of the contract. At the present time, plaintiff is still performing the contract under which it alleges it is operating at a loss. Plaintiff has requested, by its cross-motion for summary judgment dated May 11, 2000, that the court grant all its requests for declaratory relief as a matter of law or allow it to cease performance. For the reasons stated herein, the court denies defendant's entire motion to dismiss and grants defendant's motion for summary judgment as to Count VI. Additionally, the court grants Emery's motion for summary judgment on Counts I - V, inclusively.

FACTS AND PROCEDURAL HISTORY

In April of 1997, USPS selected Emery to create and operate a two-day network for a [*3] portion of its Priority Mail service under Contract No. 102590-97-B-1460 ("the contract"), whereby Emery agreed to sort and transport this classification of mail. Under the contract, Emery employs a network of ten Priority Mail processing centers, sorting and then delivering the mail to the appropriate USPS destination facilities. According to Emery, and not disputed by defendant, service performance by Emery, on mail originating and arriving within Emery's network, has been better than USPS's performance concerning Priority Mail outside the network.

Under the original contract terms, USPS agreed to pay Emery a per piece price, so long as the actual volume of mail handled remained between 95% and 105% of the volume estimates outlined in the contract and provided by USPS. The estimates were also categorized by the type of Priority Mail, which indicated what mix of mail Emery would expect to receive from USPS. As per the contract, if the volume fluctuates above or below the aforementioned percentage estimates, adjustments to the per piece price would be made according to schedules listed in the contract. This pricing structure is commonly known as "volume variation pricing" and is termed [*4] in the contract as Contract Line Item 1 (hereinafter referred to as "CLIN 1"). Emery claims to have substantially relied on USPS projections in its preparation and implementation of the system which would fulfill its obligations under the contract.

The contract contains USPS's standard disputes clause, which subjects it to the Contract Disputes Act of 1978 ("CDA"), 41 U.S.C. §§ 601-13. This clause specifies that Emery "must proceed diligently with performance of this contract, pending final resolution of any request for relief, claim, appeal, or action arising under the contract . . . ." (First Amended Complaint, App. 4). The issue of continued performance is hotly contested by the parties.

Emery began execution of the contract shortly after April, 1997. According to plaintiff and undisputed by defendant, Emery, on executing the contract, has been required to process volumes of mail that consistently and substantially exceed the USPS projections as set out in the contract. Additionally, the mix of mail Emery has had to process has been significantly different from that which was projected by USPS in the contract. As such, Emery claims that it has been losing [*5] a substantial amount of money and is, in fact, executing the contract at a loss. As a result, in "early 1998," Emery informed USPS that it was preparing claims against it for the significant cost increases, which it estimates to be in the "hundreds of millions." Id. at 7.

Consequently, by letter agreement on August 4, 1998, and as modified by a supplemental agreement dated September 16, 1998 (hereinafter referred to in toto as the "August 4 agreement"), Emery and USPS modified certain terms of the contract in an attempt to obviate the parties' disagreements over the pricing structure. For specific concessions made by Emery, USPS agreed to alter the volume variation pricing of CLIN 1. The August 4 agreement provided that the parties would attempt in good faith to agree upon a revised, fixed price for CLIN 1 for calendar 1999 and beyond. During the latter half of 1998 and ostensibly beyond, USPS agreed to pay Emery an increased per-piece price and a provisional rate while negotiations for a fixed price are undertaken. As for timing, the agreement specified that the fixed price for 1999 should be set by the parties on or before March 31, 1999. The court notes that this [*6] price, at present, has still not been set.

To that end, the agreement provided, among other things, that Emery would open its books for an audit by USPS. Such audit would be done "to the extent determined necessary" by USPS and will be completed upon

45 days of receipt of all necessary financial information. Id. at App. 6. Emery and USPS dispute whether all necessary financial information for the audit has been provided by Emery. The August 4 agreement also provides that the fixed price for CLIN 1 will be negotiated in future years through this same process. As far as the court has been informed, the audit for 1999 has not been completed at the present time.

It is apparent from the filings that, from August 1998 to the present, the parties have been attempting to negotiate the new prices under the August 4 agreement. As specified in the August 4 agreement, Emery has timely provided USPS with its pricing proposal, specifically on February 1, 1999. Emery contends, however, that USPS has not been negotiating with it in good faith. It contends that the provisional rate, as provided for above and set by USPS, is presently significantly lower, not higher, than the rate Emery had been [*7] receiving prior to the August 4 agreement and that such is being done in bad faith.

Accordingly, because the parties had still not agreed upon the CLIN 1 fixed price, Emery submitted a claim, on September 8, 1999, for monetary relief from USPS pursuant to the CDA. Defendant concedes that, at first, it refuted the efficacy of certain provisions of the August 4 agreement, but then retracted this position in two letters, both dated March 30, 2000 ("the March 30 decision"), in the form of the USPS contracting officer's ("CO") final decision. Specifically, USPS initially took the position that the August 4 agreement did not impose enforceable obligations on it to negotiate a new price for CLIN 1 and that, because Emery filed a CDA claim, USPS did not have to honor any of the price re-determination provisions of said agreement. Why USPS took such indefensible positions, at that posture, is a mystery to this court.

The March 30 decision acknowledged that Emery is entitled to its incurred costs allocable to CLIN 1, consistent with applicable contract terms and regulations, plus a fair and reasonable profit. Additionally, the March 30 decision indicated that the amount Emery will receive [*8] for its 1999 performance will be decided by USPS on or before December 31, 2000, a full 19 months after the date specified in the August 4 agreement. The March 30 decision is silent as to pricing for years subsequent to 1999. Additionally, USPS issued another letter in the form of a CO's decision, dated May 16, 2000 ("the May 16 letter"), indicating that it believed the CLIN 1 pricing negotiations for the year 2000 would not be completed within the parameters set by the August 4 agreement. This letter further indicates USPS's position that Emery does not have a right to cease performance on the contract. It is apparent from these letters and the parties' filings that there is a great disparity between the two regarding the interpretation of the August 4 agreement and what obligations it imposes on them for the setting of the CLIN 1 prices.

Consequently, Emery filed its complaint for declaratory relief in this court on April 3, 2000. In said complaint, Emery requests that: (a) the provisions of the August 4 agreement are valid and enforceable; (b) the redetermination process established in the August 4 agreement has not been terminated by Emery's formal claim; (c) USPS was and [*9] remains obligated to pay Emery reasonable provisional rate increases until a redetermined rate is set by negotiation or order; (d) USPS is not entitled to recoup its prior payments of the CY 1999 provisional rate increase or to resume volume variation pricing because Emery filed a claim under the CDA; (e) USPS is not entitled to require Emery, as a condition of a negotiated CLIN 1 rate increase, to show losses or to show a relation to USPS changes to the contract; (f) USPS remains obligated to respond to CLIN 1 pricing proposals from Emery under the August 4 agreement; (g) USPS remains obligated to negotiate in good faith to complete negotiations for the CY 1999 CLIN 1 rate, and to use its best efforts to do so; (h) USPS's position and related actions, as stated in its October 8 letter and as reflected in the complaint, are material breaches; and (i) Emery may lawfully elect to cancel the contract and stop work on account of each and every one of the breaches.

Shortly after the scheduled April 11, 2000 status conference, defendant filed a document titled "Statement To Clarify Remarks At Status Conference." In this filing, defendant substantially admits the facts contained in three [*10] counts of the complaint, to wit: that the August 4 agreement is enforceable (Count I); that the August 4 agreement has a continuing effect (Count II); and that plaintiff's interpretation of the price redetermination process as outlined in the August 4 agreement is correct (Count V). Defendant's concessions, however, were limited to admitting the factual allegations in those counts, not the legal issue that defendant's actions constitute material breaches. Because the parties were attempting to fully negotiate the disputed pricing terms of the contract, they agreed, on April 27, 2000, to dismiss, without prejudice, plaintiff's request for relief which stated that defendant was in material breach (letter (h) above) and that, as such, plaintiff could elect to cease performance (letter (i) above).

These negotiations apparently failed because Emery filed its first amended complaint, on May 22, 2000, which again asserted the two previously dismissed requests. A total of six counts, to be discussed in the next sections seriatim, support Emery's requests for declaratory relief enumerated (a) through (i) above. The counts

contained in the amended complaint are as follows: I) the August 4 agreement [*11] is enforceable; II) the August 4 agreement has continuing effect; III) USPS has an obligation to pay a provisional rate as per the August 4 agreement; IV) USPS's continued use of volume variation pricing in contravention to the August 4 agreement is a material breach entitling plaintiff to cease performance; V) plaintiff's interpretation of the price redetermination process, as outlined by the August 4 agreement, is correct; and VI) plaintiff has a right to cease performance because of USPS's breaches and such right is not obviated by the disputes clause of the contract.

The task before this court is two-fold. First, the court will determine whether defendant is entitled to dismissal of one or more of Counts I - V in the amended complaint as a matter of law. Secondly, the court will determine if there are genuine issues of material fact which would prevent the court from rendering summary judgment for plaintiff on Counts I - V, and for either party on Count VI.

DISCUSSION

I. DEFENDANT'S MOTION TO DISMISS

The government seeks to dismiss, by its April 10, 2000 motion and June 9, 2000 reply brief, Counts I, II, and V of plaintiff's claim on the grounds that they are moot [*12] and, therefore, the court lacks subject matter jurisdiction pursuant to the Rules of the Court of Federal Claims ("RCFC") 12(b)(1). Additionally, defendant requests the court to decline to exercise jurisdiction on Counts III and IV because of compelling prudential reasons, also pursuant to RCFC 12(b)(1). It is important to note that defendant initially took the position, in its April 10, 2000 motion, that Count IV should be dismissed as moot. Thereafter, in its June 9, 2000 reply brief, defendant appears to have abandoned this position and, instead, added Count IV to its section alleging dismissal for prudential reasons.

Furthermore, the court notes that the opening paragraph of defendant's April 10, 2000 motion to dismiss indicates it is requesting dismissal pursuant to RCFC 12(b)(1) (lack of subject matter jurisdiction) and RCFC 12(b)(4) (failure to state a claim), but that its supporting arguments for dismissal are more appropriate under 12(b)(1), as no analysis under 12(b)(4) is contained therein. Moreover, defendant's June 9, 2000 reply brief simply states that defendant is requesting dismissal pursuant to "Rule 12," without specifying a subsection. Accordingly, the court [*13] considers defendant's motion, in toto, as a request to dismiss Counts I, II, and V as moot, and Counts III and IV because of prudential reasons, both under Rule 12(b)(1).

Jurisdiction over the subject matter in this case is initially conferred on this court by the Tucker Act, 28 U.S.C. § 1491, and the Contract Disputes Act, 41 U.S.C. § 609(a)(1). This is so because the disputed contract issues are with the United States, and it contains a clause which provides that it is to be governed by the CDA. Under the CDA, Emery is permitted to bring this action directly in the Court of Federal Claims after the final decision by USPS's CO, dated March 30, 2000, in lieu of appealing this decision to an agency appeals board. As such, this instant action is a de novo proceeding and, once properly here, this court shall rule on Emery's claim as an original proceeding and not simply as a limited review of the CO's decision.

Our equity jurisdiction over this type of subject matter is a fairly recent development. That is so because, in 1992, the Tucker Act was amended to give the Court of Federal Claims jurisdiction "to render judgment upon any [*14] claim by or against . . . a contractor under section 10(a)(1) of the Contract Disputes Act, including [certain specific kinds of non-monetary disputes], and other non-monetary disputes on which a decision of the contracting officer has been issued under section 6 of the [CDA]." 28 U.S.C. § 1491(a)(2), quoted by Alliant Techsystems, Inc. v. United States, 178 F.3d 1260, 1268 (Fed. Cir. 1999). The instant requests for declaratory relief herein are exactly the type of "non-monetary" disputes envisioned by the 1992 amendment.

When evaluating a motion to dismiss, as in this case, the court must construe the allegations of the complaint favorably to the pleader. Scheuer v. Rhodes, 416 U.S. 232, 236, 40 L. Ed. 2d 90, 94 S. Ct. 1683 (1974) (abrogated on other grounds). Evaluating the complaint in this manner is required regardless of whether the motion to dismiss is one for failure to state a claim or for lack of subject matter jurisdiction, as in this case. Thus, in rendering our decision, the court will presume that all of Emery's factual allegations are true. See Forestry Surveys and Data v. United States, 44 Fed. Cl. 485, 490 (1999). [*15]

If, however, the motion to dismiss for lack of subject matter jurisdiction challenges the truth of the jurisdictional facts in the complaint, the court may look beyond the pleadings to consider all available evidence -- in the instant case the parties' filings -- in order to determine jurisdiction. Rocovich v. United States, 933 F.2d 991, 993 (Fed. Cir. 1991). Similarly, if the court has doubts regarding jurisdiction, it may look at all the evidence

presented to satisfy itself regarding the jurisdictional facts. RHI Holdings, Inc. v. United States, 142 F.3d 1459, 1461 (Fed. Cir. 1998). Indeed the court may, and often must, find facts on its own. This fact-finding scenario is what the court faces now in deciding this instant matter.

Subject matter jurisdiction may be challenged at any time by the parties, the court *sua sponte*, or even on appeal. Booth v. United States, 990 F.2d 617, 620 (Fed. Cir. 1993). The plaintiff, of course, bears the burden of establishing subject matter jurisdiction and must do so by a preponderance of the evidence. Reynolds v. Army & Air Force Exch. Serv., 846 F.2d 746, 748 (Fed. Cir. 1988). [*16] Accordingly, mindful of Emery's burden to establish the jurisdiction of this court, as well as our own duty to ensure the legitimacy of our jurisdiction, we consider all the evidence presented for this court's consideration in evaluating the government's motion to dismiss, even evidentiary matters outside of the pleadings. Indium Corp. of Am. v. Semi-Alloys. Inc., 781 F.2d 879, 884 (Fed. Cir. 1985). Indeed, if a defendant challenges jurisdiction, the plaintiff cannot rely merely on allegations in the complaint but must instead bring forth relevant, competent proof to establish jurisdiction. Reynolds, 846 F.2d at 747.

It is important to understand, however, that the court's task on this issue is not to decide "whether a plaintiff will ultimately prevail, but whether the claimant is entitled to offer evidence to support the claims." Scheuer, 416 U.S. at 236. Therefore, after a review of the factual allegations of this instant complaint, the petition should be dismissed for lack of subject matter jurisdiction only if no set of facts contained therein would, if proved, entitle plaintiff to relief in this court. Son Broadcasting, Inc. v. United States, 42 Fed. Cl. 532, 537 (1998). [*17] See also Conley v. Gibson, 355 U.S. 41, 45-46, 2 L. Ed. 2d 80, 78 S. Ct. 99 (1957).

Defendant alleges that, because it has conceded the main factual issues of Counts I, II, and V, those counts have been rendered moot. "The mootness doctrine originates from the 'case or controversy' requirement of Article III of the United States Constitution." CCL Service Corp. v. United States et al., 43 Fed. Cl. 680, 688 (1999), citing Northrop Corp. v. United States, 27 Fed. Cl. 795, 800 n.4 (1993) (discussing mootness doctrine and its application by Court of Federal Claims); see Flast v. Cohen, 392 U.S. 83, 94, 20 L. Ed. 2d 947, 88 S. Ct. 1942 (1968) ("the judicial power of federal courts is constitutionally restricted to 'cases' and 'controversies.'"). In other words, if a plaintiff's allegations become moot for some reason, there would be no justiciable "case or controversy" a court could decide and, therefore, such court would be divested of subject matter jurisdiction. While Congress created this court under Article I of the U.S. Constitution and the "case or controversy" requirement appears in Article III, the mootness doctrine [*18] and other justifiability precepts--including ripeness and standing--have often been properly invoked by this court. CW Government Travel. Inc. v. United States, 46 Fed. Cl. 554, 557-58 (2000); see Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, § 105(a), 96 Stat. 25, 27 (1982) (codified, as amended, at 28 U.S.C. § 171 (1994)).

"The burden of demonstrating mootness 'is a heavy one.'" County of Los Angeles v. Davis, 440 U.S. 625, 631-34, 59 L. Ed. 2d 642, 99 S. Ct. 1379 (1979), quoting United States v. W. T. Grant Co., 345 U.S. 629, 632-33, 97 L. Ed. 1303, 73 S. Ct. 894 (1953). The mootness of an action relates to the existence of a basic dispute between the parties and not only to the declaratory relief that has been requested. Thus, although defendant's subsequent acts may possibly moot plaintiff's declaratory relief requests herein, the constitutional requirement of "a case or controversy" may be supplied by the availability of other relief if additional consequences of defendant's actions remain. CCL Service Corp., 43 Fed. Cl. at 688-89.

Thus, USPS's voluntary cessation of [*19] illegal or breaching conduct does not necessarily moot plaintiff's related counts unless it is absolutely clear that the alleged improper behavior will not reasonably recur. In this connection, "[a] case becomes moot when there is no reasonable expectation 'that the alleged violation will recur, *** and *** interim relief or events have completely and irrevocably eradicated the effects of the alleged violation.'" National Medical Enterprises, Inc. v. United States, 11 Cl. Ct. 329, 332 (1986), quoting County of Los Angeles, 440 U.S. at 631. A defendant's voluntary cessation of a challenged practice or conduct--in this case contract breaches--does not necessarily deprive a federal court of its power to determine the legality of the practice. Friends of the Earth, Inc. v. Laidlaw Environmental Services, Inc., 528 U.S. 167, 120 S. Ct. 693, 708, 145 L. Ed. 2d 610 (2000). The heavy burden of establishing to the court that the challenged conduct cannot reasonably be expected to start up again lies with the party asserting mootness. Id.

In addition to the foregoing, defendant requests the court to dismiss Counts III and IV, even if [*20] they are not moot, because of prudential reasons, including: i) plaintiff has an adequate damages remedy; ii) the court should decline to unnecessarily interfere with an existing contract; and iii) judicial economy. Defendant bases its argument herein on the doctrine that courts can decline to exercise jurisdiction for prudential reasons, even if jurisdiction is otherwise proper. Trippe Manufacturing Company v. American Power Conversion Corp., 46 F.3d 624, 627 (7th Cir. 1995). The decision whether to do so rests within the sound discretion of the trial court.

See Alexander Proudfoot v. Federal Insurance Company, 860 F. Supp. 541, 542 (N.D. Ill. 1994). Accordingly, we will examine defendant's arguments related to this position in the following sections.

With these guidelines in mind regarding the elements that defendant must establish in order to prevail in its motion to dismiss plaintiff's Counts I - V, the court now considers defendant's arguments, seriatim.

1. Count I - Enforceability of the August 4 Agreement

Emery's initial allegation claims that the August 4 agreement, discussed earlier, is enforceable and that, pursuant to said agreement, [*21] USPS must timely and in good faith negotiate a new CLIN 1 price for the contract. Defendant counters that, because it has now changed its position and conceded the main factual issues of Count I, to wit, that the August 4 agreement is, indeed, enforceable, the count itself has been rendered moot and, therefore, the court lacks subject matter jurisdiction over it. Initially, defendant had taken the position that said agreement was not enforceable.

Defendant's mootness argument is unpersuasive as it has not conclusively shown that the mere statement that it now agrees that the August 4 agreement is enforceable means it is indeed complying with such. In fact, while defendant admits the enforceability and continuing effect of the August 4 agreement, in both the March 30 decision and the April 13, 2000 Statement To Clarify Remarks At Status Conference, defendant has, arguably, failed to act in accordance with said position. For instance, the August 4 agreement states the following regarding the parties' price renegotiations:

> c) For Calendar Year ("CY") 1999, the following process will be used to adjust per-piece CLIN 1 prices . . . .
> d) Emery will open its books for audit [*22] when requested by the USPS. Emery will submit a pricing adjustment proposal for CY 1999 on or before January 31, 1999.
> e) . . . The USPS, after auditing Emery's books to the extent it determines necessary, will evaluate the proposal and respond within 45 days of its receipt. Emery and the USPS pledge their best efforts to negotiate in good faith to complete negotiations on or before March 31, 1999, on final CY 1999 CLIN 1 [pricing] adjustments retroactive to January 1, 1999, and resolution of any pending or possible requests or claims for equitable adjustments or other pending or possible claims under the Contract. . . .

(Amended Compl., App. 6, p. 5) (emphasis added). Pursuant to subsection (e), Emery has submitted its pricing proposal on time, but defendant, to date, has neither responded with its own price proposal, nor completed its audit in order to do so.

In fact, despite the above clauses, defendant, in its March 30 decision, states: "that [the 1998] audit questioned a significant portion of the costs Emery booked for 1998. . . . in view of the wide disparity between your estimated price for CY 1999 and our own analysis, and the outstanding audit issues, [*23] the only prudent course is to continue our discussions based on Emery's actual, audited cost experience for that year." (Deft's Mot. To Dismiss, App. p. 4-5). Emery alleges that defendant is taking far too much time to complete its side of the bargaining rationale and is using an improper method of evaluation, to wit, actual costs. Indeed, the facts bear this allegation out as it has now been over a year since March 31, 1999, the date the August 4 agreement specified the parties were supposed to have agreed on the 1999 pricing, and defendant has neither responded with its own pricing proposal, nor completed its audit. Accordingly, the evidence presented to this court indicates, as far as we can tell, that defendant is not complying with the agreement and, as such, is not properly acknowledging its enforceability. The parties should observe, however, that the court is not ruling, at this time, that defendant is in breach of contract.

Additionally, under the mootness doctrine there is no evidence that defendant will not again, in another CO decision or convenient moment, officially refuse to give the August 4 agreement effect. There is no reason for the court to believe, based on what [*24] we have seen in all of the pleadings filed, that defendant will not again return to its former position that the August 4 agreement is not enforceable. Furthermore, there is no evidence that the consequences of defendant's initial actions, in refusing to recognize the enforceability of the August 4 agreement, have been eradicated. See National Medical Enterprises, 11 Cl. Ct. at 329. Consequently, defendant has not met its heavy burden of establishing to the court that Count I is truly moot. Laidlaw, 120 S. Ct. at 708. Likewise, any argument that may be proffered by defendant asserting that a remedy under this count would be too difficult to fashion is similarly rejected.

When the court views all the evidence presented and construes the allegations in the complaint favorably to Emery, we are left with the firm conviction that, if such facts as seen by the court are indeed proven by plaintiff, it will be entitled to the declaratory relief requested. Son Broadcasting, 42 Fed. Cl. at 537. The court holds that Emery has shown, by a preponderance of all the evidence submitted, that we have subject matter jurisdiction over Count I. Thus, [*25] as to said count, we deny defendant's motion to dismiss allegedly due to mootness.

2. Count II - Continuing Effect of the August 4 Agreement

Emery alleges in Count II of its amended complaint that defendant is taking the position that Emery's filing of a CDA claim terminates defendant's obligations under the August 4 agreement and that, because of said position, defendant is in material breach. Therefore, according to Emery, defendant is refusing to give the August 4 agreement continuing effect. This count is substantially similar to, and interrelated with, Count I. As such, Emery prays, in its request for declaratory relief, that "the [pricing] redetermination process established in the August 4 agreement has not been terminated by Emery's formal claim based on a redetermined price," and that, accordingly, the August 4 agreement is enforceable and continuing in effect. (Amended Compl. at 28). Defendant, on the other hand, argues that its March 30 decision and Statement To Clarify Remarks At Status Conference unequivocally state its position that it is, in fact, giving continuing effect to the August 4 agreement. As such, defendant argues that plaintiff's Count II should, like [*26] Count I, be dismissed as moot.

As the filings indicate, it is true that defendant initially took the position that Emery's filed claim obviated defendant's obligation to honor the August 4 agreement. Defendant stated this initial position in a letter to Emery from the CO, dated September 10, 1999, as follows:

> Since . . . your September 8 [1999] claim supplanted the pre-claim CLIN 1 price review process established by section 17 [of the August 4 agreement] with the formal claims review process under the Contract Disputes Act, our obligation under section 17 to pay "provisional" price increases has terminated. . . . CLIN 1 pricing under the . . . Contract accordingly reverts after September 8, 1999 to the original terms and conditions of CLIN 1 of that contract, except as we may otherwise agree to settle your presently pending certified claim.

(Amended Compl. App.1).

It is also true that defendant retracted this position in its CO's March 30 decision and its April 13, 2000 Statement To Clarify Remarks At Status Conference. What is not necessarily true, however, is that defendant, by these two documents, is complying with the August 4 agreement. In fact, as the previous [*27] section explained, the evidence shows that defendant is not giving the August 4 agreement its full and continuing effect. Despite defendant's assertions to the contrary, the inordinate amount of time it is taking to respond to plaintiff's pricing proposal indicates USPS is not complying with the spirit and, perhaps, not the letter of the August 4 agreement. While the papers indicate that defendant is not complying with the August 4 agreement, however, we are not holding, at this time, that defendant was or is in breach of contract.

Consequently, defendant's March 30 decision and Statement To Clarify Remarks do not conclusively show that it is complying with the August 4 agreement's pricing requirements and, therefore, defendant's mootness argument as to Count II, similar to Count I, fails. It is appropo, at this point, to utilize the cliche "actions speak louder than words." Here, just because defendant merely states, in the aforesaid documents, that it is giving the August 4 agreement continuing effect does not mean it is indeed doing so. Accordingly, when the court considers all of the evidence as presented by the parties' filings and construes plaintiff's allegations favorably, [*28] such indicates that Emery has proven this court's subject matter jurisdiction over Count II by a preponderance of the evidence. As to Count II, we also deny defendant's motion to dismiss allegedly due to mootness.

3. Count III - USPS Obligation to Pay the Provisional Rate Increase

In this count, Emery alleges that USPS is refusing to pay the provisional rate increase as outlined in the August 4 agreement and discussed supra at page 3. Under the agreement, this rate was to cover the brief period of time between the signing of the agreement in 1998 and the date a fixed price was mutually agreed upon for CY 1999. As previously mentioned, the fixed price, at the present time, has still not been set by the parties.

Furthermore, plaintiff alleges that USPS is recouping prior provisional rate increases, which were over and above the pre-August 4 agreement prices, and that such is being done, in bad faith, because of Emery's filing of a CDA claim.

Defendant, in its motion to dismiss, requests that the court "decline to exercise jurisdiction" over this count for prudential reasons, including: (i) plaintiff has an adequate damages remedy at law; (ii) the court should not unnecessarily [*29] interfere with an existing contract; and (iii) judicial efficiency. The court shall briefly address each of these arguments, seriatim.

Defendant does not state whether it is in fact paying the proper provisional rate as required by the August 4 agreement but alludes that it is not doing so because it concedes, in its discussion of the provisional rate, that: "Emery will in the end be paid based upon its actual costs. To the extent that there is a live controversy, however, Emery possesses a fully adequate legal remedy in an action for damages." (Deft's Mot. To Dismiss at 9) (emphasis added).

Furthermore, USPS argues that, "because Emery may file suit to obtain the provisional price increase in the form of damages, declaratory relief is unwarranted." Id. The court rejects this argument for the following reasons. Under the 1992 amendment to the Tucker Act, quoted supra at 7, terms such as "any claim" and "other non-monetary disputes" obviously indicate Congress' intent to give the statute broad coverage over non-monetary disputes. 28 U.S.C. § 1491(a)(2). This language is distinctly expansive, not restrictive. Clearly, if Congress wanted to restrict [*30] declaratory actions to equitable claims that were certain to have no possible chance of a concomitant damages remedy, then it would have used restrictive, not expansive, language in the statute. In such a scenario, Congress would have made it clear that this court should only exercise jurisdiction over equity claims when there was no possibility of a damages claim.

Defendant attempts to argue that, because plaintiff's Count III "will ripen only later this year" into a claim for monetary damages, it would be inappropriate for the court to ever grant the declaratory relief requested. (Deft's Mot. To Dismiss at 9). This position is contradictory to the open-ended language contained in the Tucker Act, quoted above, and, as such, the court rejects defendant's position that we should dismiss Count III because plaintiff may, at some point, have a claim for damages. See Alliant Techsystems, 178 F.3d at 1268.

Additionally, the court does not find at all compelling defendant's argument that we should decline to exercise jurisdiction because of the potential harm of unnecessary interference with the administration of a continuing contract. The contract's execution is far from [*31] being free of interference, as both parties are at odds with each other in strenuously attempting to alter and define its parameters. Moreover, it is likely that court action may actually be the only thing that can save the contract.

Likewise, the court views defendant's argument that we should decline jurisdiction because of judicial efficiency equally unpersuasive. Considering the scope and nature of the contract here in dispute, it would be folly for the court to dismiss this equity action merely for judicial economy. This is particularly true whereas here the court is fully mindful of the renowned equitable principles that -- he who comes into equity must come with clean hands; and defendant, who asks us to dismiss this count in equity, is certainly not of clean hands. See, e.g., Keystone Driller Co. v. General Excavator Co., 290 U.S. 240, 244-45, 78 L. Ed. 293, 54 S. Ct. 146 (1933). Consequently, the court rejects defendant's position that we should decline to exercise jurisdiction for prudential reasons and holds that plaintiff has adequately established this court's subject matter jurisdiction over Count III. Defendant's motion to dismiss Count III for prudential [*32] reasons is, therefore, denied.

4. Count IV - USPS Return to Volume Variation Pricing

Under this count, Emery alleges that USPS has, in contravention of the August 4 agreement, applied volume variation pricing instead of the provisional rate as discussed in the prior section and that such is a material/anticipatory breach of the agreement. This count is interrelated with Count III and should be viewed as the 'flip-side' of said count. In other words, plaintiff alleges that USPS should be ordered to apply the provisional pricing as outlined in the August 4 agreement (Count III), instead of applying the pre-August 4 agreement's volume variation pricing, which USPS is now doing in breach of the contract (Count IV).

Defendant concedes that its March 30 decision and its Statement To Clarify Remarks At Status Conference do not address this issue directly but requests the court, nonetheless, to decline to exercise subject matter jurisdiction for the following prudential reasons, which mirror those of Count III: (i) plaintiff has an adequate damages remedy; (ii) the court should not unnecessarily interfere with an existing contract; and (iii) judicial efficiency.

As in Count III, defendant [*33] argues that, because "the contracting officer has determined that Emery will, in the end, recover its full, allowable actual costs," Count IV should be dismissed as plaintiff has an adequate damages remedy at law (Deft's Mot. To Dismiss at 8). As mentioned earlier, defendant does not appear to be meeting its obligation to pay this provisional rate as required under the August 4 agreement and, accordingly, plaintiff's declaratory request in Count IV is, indeed, viable. For the same reasons discussed in the prior section, the court rejects defendant's damages argument as applied to this interrelated count. Simply because plaintiff may have an adequate money damages remedy, at some point, does not necessarily mean, on these facts, that the court should dismiss the current declaratory relief request, and we decline to do so. See Alliant Techsystems, 178 F.3d at 1268. Defendant has not shown an adequate reason why this court should decline to exercise jurisdiction simply because plaintiff may have a future damages claim.

Likewise, as in Count III, the court finds unpersuasive defendant's arguments for dismissal because of the possible harm in unnecessarily interfering [*34] with an existing contract and for judicial efficiency. The reasons supporting the court's ruling as to these two arguments are more fully explained in the prior section. Considering all of the above, the court holds that Emery has established our subject matter jurisdiction by a preponderance of the evidence and, accordingly, we deny defendant's motion to dismiss Count IV.

5. Count V - Interpretation of the Price Redetermination Process

In Count V of its amended complaint, Emery alleges that defendant has taken the position that, in order for the pricing structure of the August 4 agreement to become efficacious, Emery must show that: (a) such is necessitated by Emery's losses and (b) those losses are the result of USPS's changes to the contract. Additionally, plaintiff claims that this position is a material breach and, as such, the court should: 1) declare USPS's obligations under the August 4 agreement and 2) declare that Emery has a right to cease performance.

Defendant counters that it has already conceded the above issue in its March 30 decision and its Statement To Clarify Remarks At Status Conference and that, therefore, plaintiff's request is moot and should be dismissed. [*35] Specifically, defendant states, with regard to plaintiff's dispute over having to show losses caused by USPS, that "those issues are also moot because the contracting officer has determined that Emery is entitled to a fair and reasonable price for CLIN 1, based upon its actual costs" (Deft's Mot. To Dismiss at 7) (emphasis added).

The court has reviewed the March 30 decision and notes that defendant has, in fact, conceded that it intends to allow plaintiff a reasonable profit on the contract as per the August 4 agreement. It does not follow, however, that defendant has committed itself to do so because it has not even completed its price redetermination for CY 1999. As explained earlier, defendant is over a year late in responding to plaintiff's price proposal. Moreover, proper justification for why defendant has not completed its end of the pricing redetermination agreement at the present time is not supported by the record thus far. Defendant merely states that its audit of Emery's books, which is called for in the August 4 agreement, has not yet been completed. While the court is not holding that such is being done in bad faith or in breach of contract, the totality [*36] of the evidence indicates that defendant is taking an unreasonable amount of time to complete its audit, clearly outside of the timescale as envisioned by the August 4 agreement.

Accordingly, defendant's bare statements, in its March 30 decision and Statement to Clarify Remarks At Status Conference, that it will comply with the August 4 agreement's price redetermination process does not mean it is actually doing so. As such, plaintiff's request for declaratory relief requiring defendant to comply with said process is anything but moot. Therefore, similar to Counts I and II, defendant has not met its heavy burden in showing that Count V is moot. Considering all of the above, this court holds that plaintiff has shown, by a preponderance of the evidence, that this court retains subject matter jurisdiction over Count V. Consequently, the court denies defendant's motion to dismiss Count V.

II. THE PARTIES' CROSS-MOTIONS FOR SUMMARY JUDGMENT

Pursuant to RCFC 56(c), plaintiff seeks summary judgment on all six counts contained in its first amended complaint. Defendant, under the same rule, seeks summary judgment on Count VI only, i.e., continued performance. RCFC 56(c) is modeled [*37] after Rule 56 of the Federal Rules of Civil Procedure (Fed. R. Civ. P.), both providing that: "the judgment sought shall be rendered forthwith if the pleadings, [and all other filings] . . . show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." RCFC 56(c); Fed. R. Civ. P. 56.

In order for this court to grant either party's motion for summary judgment, the court, of course, must find that there are no genuine issues of material fact and that the prevailing moving party is entitled to judgment as a matter of law. Celotex Corp. v. Catrett, 477 U.S. 317, 325, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986). A "genuine dispute" is one in which a reasonable jury, or in this case a reasonable judge, could return a judgment for the nonmovant. Anderson v. Liberty Lobby, 477 U.S. 242, 248, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986). The burden is on the moving party to show that (1) there is no genuine dispute as to any material fact and (2) it would be entitled to a directed verdict at trial. Adickes v. S.H. Kress & Co., 398 U.S. 144, 157, 26 L. Ed. 2d 142, 90 S. Ct. 1598 (1970). [*38] Any doubt as to factual issues must be resolved in favor of the party opposing summary judgment, to whom the benefit of all presumptions and inferences run. Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 587, 89 L. Ed. 2d 538, 106 S. Ct. 1348 (1986).

Summary disposition is appropriate only if there is no genuine dispute over a material fact. Anderson, 477 U.S. at 248. A material fact is one that might affect the outcome of the suit under the governing substantive law. Id. Disputes over facts which would not determine the outcome are immaterial and, therefore, will not preclude the entry of summary judgment. Id.; Lane Bryant, Inc. v. United States, 35 F.3d 1570 (Fed. Cir. 1994).

Initially, the burden is on the moving party to produce adequate evidence showing that there is no genuine issue of material fact supporting the non-movant's case. Celotex Corp., 477 U.S. at 325. This burden may be discharged, and then shifted, if the moving party demonstrates that there is an absence of any evidence to support the nonmoving party's case. Id. If the moving party makes such a showing, the nonmoving [*39] party must, if it desires to avoid an adverse judgment, demonstrate that a genuine factual dispute exists by presenting evidence which establishes the existence of an element essential to its case upon which it bears the burden of proof. Donnie Price v. United States, 46 Fed. Cl. 640, 645 (2000).

In reaching a decision on summary judgment, the court is not to weigh the evidence, nor make credibility assessments, nor seek the absolute truth of the matter. Anderson, 477 U.S. at 255. The role of the judge is simply to determine whether there is a genuine issue for trial. Id. at 249. When deciding a motion for summary judgment, the judge must determine whether the evidence presents a dispute or contrary positions among the parties sufficient to require submission to a fact-finder, or whether the issues presented are so one-sided that one party must prevail as a matter of law. Id. at 251-52. Pursuant to RCFC 56, a motion for summary judgment may be decided by the judge based upon the totality of documentary evidence, in addition to the pleadings, on file with the court. Celotex Corp., 477 U.S. at 324. [*40] There is no requirement that the trial judge make actual findings of fact, just simply a determination of whether or not there are genuine issues of material fact in existence. Anderson, 477 U.S. at 251.

Summary judgment is appropriate here at bar because the sole dispute concerns the interpretation of a government contract, which is a question of law. See Olympus Corp. v. United States, 98 F.3d 1314, 1316 (Fed. Cir. 1996). Additionally, because both parties moved for summary judgment as to Count VI, each motion under said count was judged independently by the court. Donnie Price, 46 Fed. Cl. at 645. With these above guidelines in mind concerning motions for summary judgment, the court will now consider both parties' motions as to each of plaintiff's six counts in the aggregate and in the following order: (1) Counts I, II, and V; (2) Counts III and IV; and (3) Count VI.

1. Counts I, II, and V: Enforceability, Continuing Effect, and Interpretation of the Price Redetermination Process of the August 4 Agreement

Emery's allegations, under these three counts, claim, most importantly, that the August 4 agreement is enforceable, continuing [*41] in effect, and that, pursuant to said agreement, USPS must timely and in good faith negotiate a new CLIN 1 price for the contract. Also, Emery alleges that defendant has taken the position, in bad faith, that Emery's filing of a CDA claim terminates its obligations under the August 4 agreement and that, in order for the pricing structure of the August 4 agreement to become efficacious, Emery must show: (i) such is necessitated by Emery's losses and (ii) those losses are the result of USPS's changes to the contract. Finally, Emery alleges that, because defendant has taken these positions, it is in breach of contract.

In view thereof, Emery requests the following declaratory judgments under these three counts: (a) that the provisions of the August 4 agreement are valid and enforceable; (b) that the pricing redetermination process established in the August 4 agreement has not been terminated by Emery's formal claim based on a redetermined price; (c) that USPS is not entitled to require Emery, as a condition of a negotiated CLIN 1 rate increase, to show losses as a result of USPS changes to the contract; (d) that USPS is required to respond to Emery's CLIN 1 pricing proposals under the [*42] August 4 agreement; (e) that USPS is obligated to

negotiate in good faith to complete negotiations for the CY 1999 CLIN 1 rate, and to use its best efforts to do so; (f) that USPS actions as reflected in the Amended Complaint are breaches of the contract; and (g) that Emery may elect to cancel the contract and cease performance.

The relevant portion of the August 4 agreement, under these three counts, states the following regarding the parties' price renegotiations:

> c) For Calendar Year ("CY") 1999, the following process will be used to adjust per-piece CLIN 1 prices . . . .
> d) Emery will open its books for audit when requested by the USPS. Emery will submit a pricing adjustment proposal for CY 1999 on or before January 31, 1999.
> e) . . . The USPS, after auditing Emery's books to the extent it determines necessary, will evaluate the proposal and respond within 45 days of its receipt. Emery and the USPS pledge their best efforts to negotiate in good faith to complete negotiations on or before March 31, 1999, on final CY 1999 CLIN 1 [pricing] adjustments retroactive to January 1, 1999, and resolution of any pending or possible requests or claims for equitable adjustments [*43] or other pending or possible claims under the Contract. During this process, the USPS will pay Emery a USPS-determined provisional per-piece CLIN 1 rate increase in an amount to be determined in the USPS's sole discretion. . . .
>
> * * * *
>
> j) The same process will be followed to adjust CLIN 1 prices and resolve other claims and disputes for CY 2000. The USPS agrees to review CLIN 1 pricing and possible or pending Contract claims or disputes in subsequent years and to follow the same process of adjusting the CLIN 1 price and resolving claims and disputes if necessary.

(Amended Compl., App. 6, p. 5).

As stated earlier, the filings indicate that defendant initially took the position that Emery's filed CDA claim obviated defendant's obligation to honor the August 4 agreement. Such was stated to Emery in a September 10, 1999 letter from USPS's CO. See discussion supra at 12. Defendant has retracted this position, particularly in its March 30 decision and Statement To Clarify Remarks At Status Conference. This does not mean, however, that defendant is fully complying with all of its obligations under the August 4 agreement, and, indeed, it appears that it may not.

As previously [*44] explained, Emery timely submitted its pricing proposal on February 1, 1999, but defendant, to date, has neither responded with its own price proposal nor completed its audit in order to do so. Emery claims that defendant is taking too much time to complete its side of the bargaining. Indeed, Emery appears correct as it has now been almost a year and a half since March 31, 1999, the date the parties were supposed to have agreed on the 1999 pricing. Emery alleges that defendant is operating in bad faith and in breach of contract. Defendant's position, on the other hand, is that, because it is concerned with what it is seeing in its audit of Emery's books, plaintiff's pricing proposal must be erroneous. The court, however, is unable to determine, at this time, whether defendant's current position is justified under the August 4 agreement. Consequently, we are not deciding, presently in this opinion, whether or not defendant was or is in breach of contract for any of its alleged actions and if any of such actions were in bad faith.

Other than the breach of contract allegation, defendant has conceded the main factual issues of Counts I, II, and V in its March 30 decision and its April 13, 2000 Statement [*45] To Clarify Remarks At Status Conference. In the latter document, defendant states:

> . . . In accord with the contracting officer's March 30, 2000 final decision, we concede the factual allegations contained in counts I, II, and V and the legal conclusions that the August 4, 1998 agreement is enforceable, is of continuing effect, and does not require plaintiff to justify increases in its Priority Mail price by reference to (a) financial losses by plaintiff or (b) changes in the performance terms of the contract. We understood the discussions during the conference, including the remarks by plaintiff's counsel, to be consistent with the scope of our admissions set forth above.

> As we established in our pending dispositive motion [to dismiss] . . . there is no material breach. . . .

(Defendant's Statement To Clarify Remarks At Status Conference at 2).

Summary judgment is appropriate when there are no genuine issues of material fact supporting the nonmovant's case and the movant is entitled to judgment as a matter of law. See discussion supra at 17-19. As such, and in accordance with the above admissions and understanding contained in this section, the court partially [*46] grants plaintiff's motion for summary judgment on Counts I, II, and V, and orders the following declaratory relief as requested by Emery:

> (A) the provisions of the August 4 agreement are valid, enforceable, and continuing in effect;
>
> (B) the pricing redetermination provisions established in the August 4 agreement have not been terminated by any existing CDA claim made by Emery;
>
> (C) Emery does not have to demonstrate losses caused by USPS as a condition of a negotiated CLIN 1 rate increase;
>
> (D) USPS must respond to Emery's pricing proposal of February 1, 1999, under the parameters set by the August 4 agreement, within forty-five (45) days of this opinion, and must timely respond to all future pricing proposals from Emery as outlined in the August 4 agreement; and
>
> (E) USPS must hereafter negotiate timely and in good faith to complete the pricing redeterminations under the August 4 agreement for CY 1999 and all applicable years beyond.

Finally, under Counts I, II, and V, plaintiff requests this court to declare that it has a right to cease performance, which defendant opposes. This request is repeated in Count VI, which contains plaintiff's main argument [*47] supporting its position. Accordingly, the discussion of continued performance is contained in part 3, infra, the section addressing Count VI. Also, plaintiff urges the court to declare that defendant's actions constitute breaches of the contract. This is strictly a legal issue on which this court deems that a ruling, at this posture, is premature. Thus, we decline to so rule at this stage.

2. Counts III and IV: USPS Obligation to Pay the Provisional Rate Increase and End Volume Variation Pricing

In these two counts, Emery alleges that USPS is refusing to pay the provisional rate increase as outlined in the August 4 agreement and has, in contravention of said agreement, applied volume variation pricing instead. Under the agreement, the provisional rate was to cover the brief period of time between the signing of the agreement in 1998 and the date a fixed price was mutually agreed upon for CY 1999. As previously mentioned, the fixed rate, at the present time, has still not been decided. Moreover, plaintiff alleges that, because it filed a CDA claim, USPS is recouping prior provisional rate increases which were over and above the pre-August 4 agreement prices. Emery alleges [*48] that these actions taken by USPS are in material breach of the contract.

Accordingly, Emery requests the following declaratory judgment rulings, under Counts III and IV, that: (a) USPS remains obligated to pay Emery reasonable provisional rate increases, as outlined in the August 4 agreement, until a redetermined fixed rate is set by negotiation or order; (b) USPS is not entitled to recoup its prior payments of the CY 1999 provisional rate increase; (c) USPS is not entitled to resume volume variation pricing, as outlined in the original contract, merely because Emery filed a claim under the CDA related to the redetermination process; (d) USPS actions, as reflected in the Amended Complaint, are breaches of the contract; and (e) Emery may elect to cancel the contract and cease performance.

The relevant portion of the August 4 agreement, relating to these two counts, states the following regarding the provisional rate:

> 16. **Volume Variation Pricing** The volume-variation pricing of the Contract's Section A is eliminated, and the 95-105% volume price of said Section A is substituted, for all CLIN 1 service

. . . .

17. **Increase in Per-Piece Price**

* * * [*49]

(e) . . . During this process, the USPS will pay Emery a USPS-determined provisional per-piece CLIN 1 rate increase in an amount to be determined in the USPS's sole discretion. The USPS will inform Emery, in writing, of the amount of this provisional per piece rate CLIN 1 increase on or before December 31, 1998.

(Amended Compl., App. 6, p. 5).

As previously discussed, given this record, defendant does not appear to be paying any provisional rate, as required by the August 4 agreement, because of its statement: "Emery will in the end be paid based upon its actual costs. To the extent that there is a live controversy [about our obligation to pay a provisional rate], however, Emery possesses a fully adequate legal remedy in an action for damages." (Deft's Mot. To Dismiss at 9). Defendant informed Emery that it was ending its provisional pricing under the August 4 agreement, because of Emery's claim, in a September 10, 1999 letter, stating,". . . our obligation under section 17 [of the August 4 agreement] to pay the 'provisional' price increase has terminated." (Amended Compl. App. 1). Emery alleges that defendant has returned to its pre-August 4 agreement's payment structure, [*50] including volume variation pricing, which is in violation of said agreement.

While defendant, for the most part, has conceded that it is not paying the provisional rate as outlined in the August 4 agreement, it is not, however, admitting material breach on its behalf. Defendant's current position on this issue, as outlined by the March 30 decision and its other filings, is that, because Emery will eventually be paid the proper rate and will receive all of the money it is entitled to, no provisional rate is necessary. The court rejects this hospitable position as the March 30 decision does not obviate defendant's obligation to pay some kind of provisional rate, which was called for under the August 4 agreement. Again, and notwithstanding the foregoing, the court is not ruling, at this time, that defendant is in breach of contract for neglecting to do so.

As explained in the prior section, defendant unequivocally admits that the August 4 agreement is enforceable and continuing in effect. That efficacious agreement, as quoted above, provides for a provisional rate to be paid by USPS, with respect to which USPS has conceded that it must pay some kind of provisional rate. Consequently, [*51] while the court is not ruling on the material breach issue, we do grant plaintiff's motion for summary judgment on these two counts to the extent of the following declaratory rulings:

(A) USPS is obligated to pay Emery reasonable and material provisional rate increases, as outlined in the August 4 agreement, until such time as the parties have renegotiated the fixed pricing rate under said agreement;

(B) USPS is not entitled to recoup its prior payments of the CY 1999 provisional rate increases; and

(C) USPS is not entitled to resume volume variation pricing, as outlined in the original contract, unless both parties agree to such act.

Additionally, under Counts III and IV, plaintiff requests this court to declare that it has a right to cease performance, which defendant opposes. This request is repeated in Count VI, which contains plaintiff's main argument supporting its position. The following section, which contains the main discussion concerning continued performance, will address this issue.

3. Count VI - Emery's Right to Cancel the Contract and Stop Work

Count VI of Emery's amended complaint alleges that, because of USPS's material breaches, it has [*52] a right to cease performance of the contract. Additionally, Emery argues that "the Claims and Disputes clause incorporated into the contract does not require Emery to continue working after a material breach by USPS, because such breach claims are not disputes 'arising under' the contract." (Amended Compl. at 27). Accordingly, Emery requests a summary judgment order, from this court, permitting it to cease performance

under the contract.

Defendant counters that "the bulk of the 'breaches' alleged in the complaint have been cured (if they ever existed) by the contracting officer's March 30 decision, which acknowledged that the price redetermination process for CLIN 1 should go forward." (Deft's Mot. To Dismiss at 10) (emphasis in original). Any breaches not cured, defendant continues, are not material. Finally, defendant contends that any material breaches for which it is liable are disputes "arising under" the contract and that, therefore, the disputes clause of the contract requires Emery to continue working until the dispute is resolved. If the court determines that USPS did, indeed, breach the contract, then defendant contends that Emery has waived any such right it had to [*53] cease performance when it continued to perform after it filed its first claim against USPS under the contract. Therefore, under all of the alternative theories above, defendant requests a summary judgment order that Emery be required to continue work performance. In this section, plaintiff's motion for summary judgment will be discussed first, followed by the discussion of defendant's motion.

As explained previously, the court is not ruling, at this time, whether defendant is currently, or was in the past, in material breach of contract. It is true that defendant has admitted a number of the issues presented in plaintiff's six-count amended complaint, which would arguably support the contention that defendant breached the August 4 agreement prior to the March 30, 2000 decision's "cures." For instance, defendant admits that, prior to March 30, 2000, it took the indefensible positions that the August 4 agreement was unenforceable and that Emery's filed claim obviated defendant's obligation to honor the agreement. Defendant then retracted these positions in the March 30 decision and confirmed such in its April 13, 2000 Statement To Clarify Remarks At Status Conference. Furthermore, as [*54] previously discussed, some of the evidence presented in this case indicates that defendant is currently not complying with said agreement. Defendant has not, however, conceded that it did, in fact, breach the agreement at any time.

The court holds that the totality of the evidence presented falls short of proving that defendant irrefutably breached the contract and, therefore, we rule that plaintiff is not entitled to cease performance. As such, the court denies plaintiff's request for summary judgment on this issue, particularly in view of the fact that plaintiff may have a viable damages claim in the future.

Regarding defendant's motion for summary judgment, the contract contains a disputes clause, which states: "a. This contract is subject to the Contract Disputes Act of 1978 (41 U.S.C. 601-613) ('the Act')," and "b. Except as provided in the Act, all disputes arising under or relating to this contract must be resolved under this clause." (Amended Compl. App. 4) (emphasis added). Emery argues that defendant's breaches are of such seriousness as to be a complete repudiation of the contract as a whole and, therefore, the current dispute is not one which [*55] "arises under" the contract. Defendant counters that the dispute is basically over the timing of payments and, therefore, it is one which falls squarely ("arises") under the contract.

"Of course, the government may not, through a contracting officer's decision, impose obligations on a contractor far exceeding any contemplated by their contract. If the government orders a 'drastic modification' in the performance [or payment terms] required by the contract, the order is considered a 'cardinal change' that constitutes a material breach of the contract. . . . Such a material breach has the effect of freeing the contractor of its obligations under the contract, including its obligations under the disputes clause." Alliant Techsystems, 178 F.3d at 1276 (citations omitted).

Considering that the court has not found, at this time, that defendant's actions are in breach of contract and that we are ordering USPS to comply with a number of provisions as set forth in the August 4 agreement, any disputes between the parties are, at this point, clearly ones which would fall under the disputes clause of the contract. Moreover, the language of the disputes clause contained [*56] in the contract and quoted above is unequivocal in its direction to Emery to continue performance under the type of scenario that is presently before us. As such, the court hereby orders Emery to continue performing the contract as set out by said contract provisions and as substantially amended by the August 4 agreement.

CONCLUSION

As explained in the body of this opinion, defendant's motion to dismiss Counts I - V is hereby DENIED. Plaintiff's motion for summary judgment on Counts I - V is hereby GRANTED, to the extent as indicated in each relevant section above, because of defendant's admissions, the facts presented to the court, and controlling legal precedent. As to both parties' cross-motions for summary judgment on Count VI, the court hereby DENIES plaintiff's motion and GRANTS defendant's motion. Accordingly, because the court has ruled on these motions in their entirety, plaintiff's request to present additional affidavits/evidence pursuant to RCFC

56(g), in order to support its motion for summary judgment, is hereby DENIED.

Given all of the foregoing, and because this opinion adjudicates the entirety of plaintiff's amended complaint and the parties' respective dispositive [*57] motions, the Clerk shall enter judgment accordingly. No costs.

IT IS SO ORDERED.

Source: All Sources : / . . . / : **Federal and State Caselaw**
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Mr. LATOURETTE. Mr. Postmaster, the questions that I was asking about that before, I guess the crux of my concern—and I had a chance to read it while others were engaged in questions, and I think I was right, and I would invite you maybe to take a look at the opinion, too, but the question I have with the strategic alliances is, if Emery Worldwide had been successful, they not only ask that you go back and pay them money that they said that you negotiated and should have paid them, but they also wanted out of the contract, and that for the moment has not been granted. That's not settled, according to the judge's decision.

What sort of disruption by going outside of the Postal Service and contracting with this type of alliance would that have caused to the delivery of mail in this country if Emery had been successful in court last month? And here's the context in which I ask it. Because it's my understanding, for instance, if FedEx has—its pilots belong to a labor organization, which is certainly OK. But if you entered into such a strategic alliance and the FedEx pilots have difficulty, not with you but with FedEx, and decide to go on strike, I'm wondering how you factor that into the strategic alliance discussions you have with these outside entities.

Mr. HENDERSON. That's a liability that we have with everyone. We fly mail on United Airlines, for example, and we have to have contingency plans when that airline goes on strike. We have a contingency plan. You basically put priority mail on the surface, and you truck it. To the degree that we could get space, which is very limited on the commercial airlines, we would contract it, but you just have alternate transportation arrangements.

Mr. LATOURETTE. During the time since I had a chance to ask you a question as well, I talked to my chief of staff, and she's a lot smarter than I am, and she said that I was asking the exclusivity and competition in bidding question improperly, so let me put it as clearly as she thinks it should be put. That is, let's say you enter an agreement with FedEx or anybody else on a strategic alliance along the lines of your discussions. Are you indicating that if somebody else comes along and says I want that exact same deal, too, that it's your position that because it's a moneymaking venture or whatever the incentives are for the Postal Service that you would enter into it with that other guy or gal as well or that the first in sort of has a leg up and others would be excluded from having the exact same four-cornered deal?

Mr. HENDERSON. Well, the only part of the deal that you couldn't do would be to contract with an equal amount of air transportation. But keep in mind when we put the Emery contract out for RFP, the one in which Emery was successful, in the end there was only one qualified bidder because of the size and scope of it, who was one person in the whole country who was interested and one person who was qualified. So the answer to it is, yes, we'd be open to discussions with anybody.

Mr. LATOURETTE. Mr. Chairman, what do you want to do about votes?

Mr. MCHUGH. I don't plan on voting. How about you?

I had contemplated adjourning the hearing. However, Mr. Davis suggests that he has at least two more questions he wishes to pose.

So I think perhaps we should vote and come back. It sounds as though you have——

Mr. DAVIS. My questions can be in writing. They're just two issues.

Mr. LATOURETTE. I have two more that aren't related to this FedEx thing that I can submit in writing and have answered, and that's fine with me.

Mr. MCHUGH. If you're comfortable with that.

Mr. LATOURETTE. I'm more than comfortable.

Mr. MCHUGH. Well, then, with that let me say we will have, as we usually do but I really mean it this time, a wide variety of questions.

I apologize to Miss Corcoran. We really didn't get to her. She submitted very thorough, comprehensive testimony that made some I think very important points that need to be pursued; and we will submit those in writing and also to Mr. Ungar to such things as the Government Performance Review Act and the suggestion of some shortcomings that we very much want the Postmaster General and the USPS to address. They're very important. That's a very important process. So you will, all of you, be receiving that; and, as you've done so faithfully in the past, we'd appreciate your cooperation.

With that, again, a closing word of truly my deepest appreciation to all of you. It has been a hell of a ride; and, until we meet again, keep those cards and letters coming out.

The meeting is adjourned.

[Whereupon, at 3 p.m., the subcommittee was adjourned.]

[Additional information subcommitted for the hearing record follows:]

GAO
Accountability * Integrity * Reliability
United States General Accounting Office
Washington, DC 20548

December 19, 2000

The Honorable John M. McHugh
Chairman, Subcommittee on the
Postal Service
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

This letter responds to your request for additional information related to the Subcommittee's September 19, 2000, oversight hearing on the Postal Service. Enclosed are our responses to questions that you and Representative Fattah asked in your letter dated September 29, 2000.

If you have any further questions or would like to discuss these responses, please call me on (202) 512-8387 or my Assistant Director, Teresa Anderson, on (202) 512-7658.

Sincerely yours,

Bernard L. Ungar

Bernard L. Ungar
Director, Physical Infrastructure

Enclosure

Enclosure
GAO Responses to Postal Oversight Hearing Questions

Questions From Chairman John M. McHugh

1. **Your testimony notes that the Postal Service may be headed for financial shortfalls. *What do you think the Service should be doing to ensure that it can continue to provide affordable postal services?***

   Achieving productivity gains through reducing costs should be a top priority for the Postal Service so that it can continue to provide affordable postal services. As the Postmaster General stated at the September 11, 2000, National Postal Forum, "First and foremost, we have to remain affordable. Of all the pillars supporting our gateway, affordability is the one that can bring the whole house down. We are doing everything we can to bring our internal cost structure down—focusing on breakthrough productivity, reducing overhead, and reforming all of our business processes." We agree with this emphasis on improving productivity and reducing costs.

2. **You also mentioned that the Postal Service's recently approved Strategic Plan (for fiscal years 2001 through 2005) states that the Service expects mail volumes to decline. *Do you think that the Postal Service's Strategic Plan provides an adequate blueprint for addressing the anticipated declines in mail volume?***

   The Postal Service's 5-Year Strategic Plan for fiscal years 2001 through 2005 provided a valuable summary of the Service's mission, changing environment, goals, and strategies to achieve those goals. As part of its discussion on its changing environment, the Service's Strategic Plan addressed how changes in the environment have lead it to significantly revise its view of the future from historical trends of continually increasing mail volumes to a planning assumption of potential declines in mail volumes for First-Class and Standard A Mail. The Strategic Plan further stated that, "if the next five years yield change in the postal markets that is indeed faster than currently anticipated, a number of issues will need to be addressed by postal management and stakeholders. Critical concerns involving the definition of universal service, the potential realignment of service standards, and the configuration of current operations and infrastructure will have to be reviewed to reduce costs and increase revenues. Increases in productivity at record levels and aggressive management of complement are already anticipated. If the volume decline becomes as drastic as some experts have forecast, especially in critical mail categories currently carrying the burden of contribution to institutional overhead, postage rates are likely to increase dramatically for the remaining mail volume, and other categories of mail would be affected."

Overall, the Strategic Plan provided a noteworthy analysis of the changing environment that made the case for a structural transformation of the Service and outlined five strategies to maintain the financial health of the Service. These strategies provide a useful overview of the Service's general strategic approach to achieve its goals and deal with the formidable challenges foreseen by the plan. However, the Strategic Plan could have been more useful if it had provided a fuller description of the Service's specific strategies in some key areas. For example, the Strategic Plan noted that "The expected decline in traditional postal workload will inevitably result in both restructuring and a reduction in the workforce." Although the Strategic Plan outlined options that could be used to manage reductions in the Service's workforce, it did not discuss how the Service plans to achieve these reductions. In addition, the Strategic Plan highlighted the Service's breakthrough productivity initiative which is designed to achieve between $3 and $4 billion in cost savings by 2005, and provided a useful summary of broad strategies to achieve this objective. However, the Strategic Plan could have provided more clarification on how and when breakthrough productivity and the associated cost savings are to be achieved.

3. What would be the implications for the American people if the Postal Service encounters increasing financial difficulties?

The short-term implications would be an increasing likelihood of further increases in postal rates so that the Service can meet its break-even mandate. The Service's final performance plan for fiscal year 2001, which was dated October 6, 2000, projected a deficit of $480 million. The Service projected this deficit to occur even though higher postal rates are expected to take effect in January 2001. Thus, unless the Service controls its costs more effectively than it has projected, another increase in postal rates may soon be necessary.

The long-term implications of increasing financial difficulties likely would be increasing difficulties for the Service to affirmatively answer all four questions we posed at the September 19, 2000, hearing: In the long run, (1) Can the Postal Service maintain, and where necessary, improve on the quality of mail delivery service? (2) Can the Service continue to provide affordable postal rates? (3) Can the Service remain self-supporting through postal revenues? And (4) Can the Service continue in the long term to provide the current level and scope of universal postal service?

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GAO Responses to Postal Oversight Hearing Questions

4. You reported that the Service's productivity for fiscal year 2000 grew by a little more than 2 percent. *What do you think of the Service's progress in this area?*

In our view, the Service's progress in improving its productivity will be critical to its success. As the Service has noted in its 1999 Annual Report, "Improvements in productivity are a hallmark of successful companies. Our government mandate does not protect us from competition or technological change, thus we are constantly striving to process more mail as efficiently as possible." We are concerned that postal productivity has increased by only 11 percent since the 1970s—despite the vast changes in postal automation and postal operations that have occurred in the past 3 decades.

The 2.5 percent increase in postal productivity in fiscal year 2000 was a notable improvement from the 3.3 percent cumulative decline in postal productivity from fiscal years 1993 through 1999. In fact, such an increase would be the largest productivity gain since fiscal year 1993. The Service has recently set a goal of increasing postal productivity in fiscal year 2001 by 0.7 percent. This goal is consistent with the Service's statement that it recognizes the difficulty of achieving called-for cost reduction goals in fiscal year 2001, the first year of its "breakthrough productivity" initiative. It is also consistent with upward revisions in the Service's projected expenses for fiscal year 2001. For these reasons, we are concerned about the Service's ability to achieve the breakthrough productivity increases it has called for.

5. You mentioned that the Service has a basic strategy of aggressive cost cutting and new revenue generation. *What do you think of this strategy?*

In the near future, the Service has more potential to gain from aggressive cost cutting than it does from new revenue generation. As we reported in November 1998, the Service's total expenses for its new product initiatives during fiscal years 1995 through 1997 exceeded total revenues by almost $85 million. In addition, the Service acknowledged in its recent Strategic Plan that no significant new revenue is forecast from new products and services during the next 5 years. We agree with the Service's strategy of focusing primarily on cost cutting and with its "breakthrough" productivity goal of achieving between $3 and $4 billion in cost savings by 2005. However, as we previously mentioned, we are concerned about the Service's ability to achieve its productivity goals, particularly in light of the Service's reductions in cost-savings estimates for fiscal year 2001. If the Service cannot achieve specific cost-savings goals, it will only increase the need for additional cost cutting efforts or price increases on postal services.

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6. **You raise the question of whether the Service, its labor unions, and its management associations share the same sense of urgency in improving labor-management relations. *Do you view this as a survival issue for the Postal Service?***

We agree with the Postal Service's conclusion in its 5-Year Strategic Plan for fiscal years 2001 through 2005: "A solution to the need for improved workforce relations must be found if the Postal Service and the associated postal jobs are to survive in the more competitive world of the future." As we reported in 1997, with the significant future challenges it faces to compete in a fast moving communications marketplace, the Service can ill afford to be burdened with long-standing labor-management relations problems. Cooperation between postal management and the workforce will be critical to facilitate the Service's ability to achieve desired productivity improvements and other major goals.

7. **The Postal Service has been providing regular reports on its progress in addressing the recommendations made in the Data Quality Study to improve the quality of data used in ratemaking. *Are you satisfied with their progress in this area?***

The Postal Service has made a good start in planning to address the recommendations made in the Data Quality Study. The Service has prioritized the recommendations, identified actions that need to be taken, and identified additional resources that will be needed to implement recommended improvements. The key will be follow-through, as the Service implements planned activities in this area. As the Service has recognized, some of the recommended improvements are long overdue, while others will take years to implement. The Data Quality Study noted that "Providing sufficiently complete and accurate data for rate making is an evolutionary process that requires the Postal Service to continually improve the quality of its rate making data and related data systems. Continuous improvement is required to adapt to changes in postal operations, technology, and costing systems as well as changes in the complexity of the Postal Service's rates..." It will be important for the Service to continue to give this the priority and resources it deserves.

8. **You also mentioned other areas where you have concerns about the reliability and completeness of the Service's performance data. *Can you elaborate on your concerns and what you believe the Service should be doing in this area?***

We are concerned that the Service has not developed results-oriented measures for all of its critical functions and program areas, as intended by the Government

Performance and Results Act of 1993 (GPRA). However, as explained in our response to question 16, the Service apparently will not have national-level performance measures in place for all of its major categories of mail for some time to come. We also remain concerned about the reliability and completeness of the Service's performance information provided in its performance plans and performance reports, as discussed in our response to question 14. Our specific concerns regarding deficiencies in the financial performance data and other information on the Service's e-commerce program are discussed in our response to questions 10 and 13. Our concerns regarding the completeness of data in the bulk business mail area are discussed in our response to question 22.

9. You mentioned that your review of pay differentials between postmasters and their employees has been delayed due to poor information in this area. *Can you give us an update on the status of your review?*

We have made moderate progress in overcoming the information limitations associated with the Postal Service's payroll system. One objective of our design phase is to determine the extent craft employees earn more than their local postmaster. To address this objective, we plan to analyze the Service's payroll file for tax year 1999. As previously discussed with subcommittee staff, the Service's payroll system does not have a data dictionary, an essential document for data analysis, that would allow us to more quickly identify the data elements needed for our analysis. Without the data dictionary, we have been forced to identify these data elements through a series of conversations with Service officials. While these officials have been cooperative, it has been and continues to be a time-consuming and iterative process.

Recently, the Service provided us with copies of its tax-year 1999 payroll files for our analysis. These files were provided on 96 cartridge tapes and cover each of the 26 pay periods in tax-year 1999. There are over 700 million records contained in these files, and each pay period consists of several files containing about 27 million records. Due to the large volume of records, each step of our analysis will require more time to complete.

The other objectives of our design phase are to determine (1) how the Service established and applied the pay differential, (2) the legal requirements for the pay differential, and (3) how other organizations determine the salaries of supervisors of bargaining unit employees. Our work on these objectives has been proceeding as planned. We are working with the Service's compensation officials to determine how the Service established and applied the pay differential. We have begun our legal analysis of the pay differential and plan to discuss any issues associated with establishing and applying the pay differential with the Service's Office of General Counsel. We have contacted both the National League of Postmasters and the National Association of Postmasters to obtain the views of their presidents regarding

the pay differential. We have also spoken with numerous postmasters about the pay differential. Finally, we have begun preliminary discussions with the Office of Personnel Management (OPM) and the Hay Group, Inc., regarding how the federal government and private sector companies determine the pay for supervisors of bargaining unit employees. We have also identified other consulting firms, compensation associations, and private sector companies to contact on supervisory pay and the differential that exists between supervisors and bargaining unit employees.

10. Your recent report found deficiencies in the Service's financial information on its e-commerce program. For that reason, you concluded that the data were insufficient to determine whether the Service had met its financial goal in the e-commerce area. *What problems did you identify? What does the Service need to do to address these problems?*

We received four sets of financial data on the Postal Service's e-commerce initiatives. We did not independently verify or audit the overall integrity of these sets of data. However, we examined the data to see whether they appeared to be consistent with the Service's e-commerce definition and criteria, clear about what was included, and complete. We repeatedly notified the Service of concerns we had with the quality of the financial data that were provided to us. However, our review of the latest set of financial data, provided in July 2000, continued to raise concerns about the consistency, clarity, and completeness of the data that were provided. For example, problems included apparent inconsistencies between the data that the Service provided to us and to the Postal Rate Commission (PRC) for its Mailing Online initiative. Regarding revenues, we also had continuing concerns with the completeness and accuracy of these data, partly because of the substantial revisions that were made from one report to another. Moreover, 99.8 percent of the Service's revenues for e-commerce initiatives reported to us in July 2000—specifically, revenues from Stamps Online and Movers Net—appeared to be based on revenue that fit the definition of revenues generated by core and existing postal products and services or Internet enhancements to provide front-end or back-end access to these products and services. As the Service had told us on June 15, 2000, such revenues were to be included with revenues from its core and existing products.

Due to the data deficiencies, we do not have confidence that the revenue and expense data the Service provided for its individual e-commerce initiatives were accurate and complete. Consequently, we do not believe that the financial data that the Service provided could be used to reliably assess the Service's progress toward meeting its overall financial performance expectation that revenues generated by e-commerce products and services in the aggregate are to cover their direct and indirect costs as well as make a contribution to overhead.

We have recommended that the Postmaster General address these problems by taking action to provide complete and accurate information on costs and revenues for the financial data on the Service's e-commerce initiatives. The Service has agreed that it needed better mechanisms to track and report the revenues and expenses of its e-commerce initiatives. The Service said it was instituting a standard financial reporting procedure that will allow it to better assess the progress of each e-commerce initiative toward meeting its expected performance goals. These steps are important and need to be effectively implemented.

In addition, in order for the Service to assess whether its e-commerce products and services collectively cover their direct and indirect costs, additional data would be needed. For example, data would be needed on expenses associated with the Service's e-commerce initiatives, such as (1) expenses related to information systems required to support e-commerce initiatives and (2) some expenses for other infrastructure initiatives that supported e-commerce initiatives. Other issues relating to such assessments would include the frequency of review; the appropriate inclusion of revenue, operating expenses, and capital expenses for discontinued e-commerce initiatives; and whether and how financial results would be made available to Congress and others, such as the PRC.

11. In the future, what do you anticipate will be main challenges for the Postal Service as it continues to implement its e-commerce program?

The main challenges for the Postal Service will be to clarify its vision and strategy for its role in the e-commerce area, provide effective management and oversight of its e-commerce program, and achieve success in a highly competitive and fast-changing marketplace. First, the Service will be challenged to clarify its vision of which e-commerce products and services are appropriate and in the public interest and to develop a strategic plan for achieving this vision. Developing goals and strategies will be key to understanding what the Service expects to achieve in this area. Second, the Service will be challenged to ensure effective management and oversight of its e-commerce program. In this regard, the Service will be challenged to appropriately identify e-commerce and related initiatives and maintain accurate and complete information on their status, follow its process for developing and approving e-commerce initiatives, and provide complete and accurate financial data on its e-commerce initiatives. Third, the Service will be challenged to compete successfully in the e-commerce area, where it faces broader competition than in traditional postal areas, a fluid competitive landscape, changing technology, and changing competitive demands.

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12. In your opinion, what are some key areas for congressional oversight of the Postal Service's e-commerce program?

Congressional oversight can focus on whether the Service's e-commerce program is effectively managed. Our review found weaknesses in this area, which we reported on; and, the Service agreed to take actions to implement our recommendations for improvement. Specifically, the Service said it would more precisely identify its new e-commerce initiatives and more completely document their review and approval. The Service also said it would require that complete and accurate cost, revenue, and performance data be tracked and periodically reported to senior management so that the Service can assess whether its e-commerce program is meeting its goal in this area. Congress can monitor the Service's progress toward addressing these deficiencies.

In addition, congressional oversight can create a meaningful dialogue on the Service's role in the e-commerce area and deal with concerns that have been raised relating to fair competition. For example, your Subcommittee held a hearing that discussed concerns about the Service's potential advantages from its dual role as a competitor providing e-commerce products and services and as an entity with law enforcement responsibilities. A recent hearing on the Service's e-commerce program by the Senate Subcommittee on International Security, Proliferation, and Federal Services, Committee on Governmental Affairs, which also has oversight responsibility for the Postal Service, discussed the Service's e-commerce program and specific concerns relating to privacy issues. Given the continuing concerns about the privacy of customer information collected on the Internet, congressional oversight can provide valuable insight into the privacy of Postal Service customer information collected through the Service's e-commerce activities.

13. Can you provide some specific examples of some of the problems that the Service encountered as it has rolled out its e-commerce initiatives?

First, during our review, the Postal Service inconsistently applied its definition of e-commerce in identifying its initiatives and provided inconsistent information on the status of its initiatives. The Service struggled to properly classify its e-commerce and other initiatives that related to its broader eBusiness environment, which included other categories of initiatives that may involve the use of new technology. It provided an initial list of 28 e-commerce and associated infrastructure initiatives to us in April 2000, which was reduced to 7 e-commerce initiatives as of July 2000. The identification of e-commerce initiatives is significant because the Service has established a separate process to provide expedited review and approval for such initiatives. In addition, identification of e-commerce initiatives defines the activities that the Service has stated are to collectively cover their direct and indirect costs and

make a contribution to overhead. The Service also had difficulty providing complete and accurate information on the status of initiatives that had been ongoing for some time.

Second, the Service did not consistently follow its current or former processes for approving and reviewing e-commerce initiatives. Based on information provided by the Service for our review, we reported that none of the five e-commerce initiatives fully or partially implemented to date had all of the required documents or formal approvals from appropriate officials. The Service provided documentation of Board of Governors approval for only two e-commerce initiatives.

Third, as discussed in our answer to question 10, the Service had difficulty providing complete and reliable financial data for its e-commerce activities.

14. The report you released today stated that you are concerned that the Service's annual performance plans and performance reports may not have been as useful to Congress, postal managers, and others as they could have been. *What are your major concerns? How could the Service make them more useful?*

Our report concluded that our assessment of the Service's fiscal year 1999 performance report and its fiscal year 2001 preliminary performance plan was not as positive as our prior years' assessments of the Service's efforts under GPRA. Although both the fiscal year 1999 performance report and fiscal year 2001 performance plan contained several positive aspects, we expressed concern that they fell short of their potential.

We noted that the fiscal year 1999 performance report—the first to be prepared by the Service under GPRA—provided a useful summary of the Service's performance in several areas, presented results in a useful tabular format, and acknowledged the importance of setting performance goals and targets linked to the Service's mission. Our primary concern with the fiscal year 1999 performance report was that some aspects were not as straightforward and clearly stated as intended by GPRA and contained possibly misleading information or incomplete explanations of results. For example, the report contained language that could lead readers to mistakenly conclude that for fiscal year 1999, the Service exceeded its on-time delivery targets for both overnight and 2- and 3-day delivery of First-Class Mail. Similarly, the report attempted to portray negative postal productivity in a strongly positive and possibly misleading light. In order to improve the Service's future performance reports, we recommended that all sections of such reports reflect straightforward and clearly stated comparisons of planned targets and results so that readers are not mislead regarding performance. The Service's Vice President for Strategic Planning stated that future performance reports would incorporate additional material responding to

concerns raised and the recommendation made in our report. We are hopeful that continuing dialogue, both within the Service and with Congress, other stakeholders, and us, will continue to add value to the Service's performance reports.

Similarly, we recognized positive aspects in the Service's preliminary performance plan for fiscal year 2001, including additional performance indicators and targets for tracking intended performance in selected subgoals, such as (1) targets for overall customer satisfaction (residential and business); (2) resolving employee complaints (Resolving Employee Disputes, Reaching Equitable Solutions Swiftly– REDRESS); and (3) Voice of the Employee survey—which is the vehicle used by the Service to improve its understanding of employee issues and concerns.

However, like the performance report, there were also several reasons why the Service's fiscal year 2001 preliminary performance plan may not have been as useful as it could have been. Specifically, the performance plan (1) provided little or no explanation on why several subgoals, indicators, and targets that were included in the Service's fiscal year 2000 performance plan were not carried forward into the fiscal year 2001 preliminary performance plan, (2) contained unclear criteria for measuring the Service's success in achieving certain goals, (3) did not completely describe strategies to accomplish some results, (4) failed to adequately update some information contained in the fiscal year 2000 performance plan to reflect known or anticipated changes when discussing the linkage between performance goals and major programs, and (5) failed to provide adequate explanations on why baseline data were not provided for some quantitative indicators.

The Service agreed with our recommendations to include in its future performance plans (1) detailed explanations when subgoals, indicators, and targets contained in the prior year's plan are not carried forward into the current year plan; (2) clear criteria, including baseline data where possible, for measuring the Service's success toward achieving stated goals; (3) complete descriptions of strategies to accomplish stated goals; (4) updated information to reflect known or anticipated changes when discussing the linkage between performance goals and major programs; and (5) where applicable, explanations on why baseline data are not being provided. As discussed in our response to question 18, the Service's final fiscal year 2001 annual performance plan made changes to implement our recommendations.

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15. You gave an example of the Service reporting that it met its goals for timely delivery of First-Class Mail based on its performance in the last 2 quarters. *Why didn't the Service's performance for the first 2 quarters—which covers the busy holiday season—count toward its goals for timely mail delivery?*

We don't know. The Service has not adequately explained the rationale for this decision. Nothing in the Service's final performance plan for fiscal year 1999 indicated that its targets for overnight and 2- and 3-day First-Class Mail were not for the entire fiscal year. We believe that it was misleading for the Service's performance report for fiscal year 1999 to highlight that the Service exceeded its targets in these areas based on performance for the last 2 quarters, when delivery scores were at their highest point for the year. When all 4 quarters of fiscal year 1999 performance data were aggregated, the Service met, but did not exceed, its goal of 93 percent on-time delivery of overnight First-Class Mail and delivered 86 percent of the 2- and 3-day mail on-time—1 percentage point less than the established target of 87 percent.

The Service's final performance plan for fiscal year 2000 stated that "For FY 2000, the Postal Service will: – Achieve overnight First-Class Mail on-time performance of at least 93 percent. – Increase two - and three-day First-Class Mail on-time performance by one percentage point over FY 1999 performance, but at least to 87 percent." Given the Service's responsiveness to our recent GPRA report, we are hopeful that the Service's forthcoming performance report for fiscal year 2000 will report results for timely mail delivery based on performance for the full fiscal year.

16. You previously have reported that the Service had not set performance targets for all of its major categories of mail. Is *this still the case; and if so, when will the Service have targets in place for all of its major categories of mail?*

In November 1998, the Service reported to your Subcommittee that "We recognize the need to provide our customers with specific measures of delivery performance for all our products and services." However, the Service still does not have targets in place for all of its major categories of mail. For example, the Service has said that it set national-level performance targets that are publicly available for First-Class Mail and Standard A Mail (primarily advertising mail); proprietary targets for Priority Mail and Express Mail; but has not set national-level targets for Periodicals and International Mail. The Service has reported that "Over the next several years, technology will enable the Postal Service to develop service performance measurement systems for all major categories of mail and for any new services introduced to the market." It is not clear to us whether or when the Service will have these performance measures and targets in place, but it appears as though this task will remain incomplete for some time to come.

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17. The GAO has closely monitored the Service's GPRA-related activities over the past several years. *In general, is the Service improving in this area?*

The 5-year strategic plans and the annual performance plans and reports required under GRPA are important public communication tools for the Postal Service and its community of interested stakeholders about the future direction that management plans to take, how it plans to get there, and how well the Service is meeting its goals. The usefulness of these documents depends upon their ability to communicate effectively with affected stakeholders. In addition, these documents should provide a complementary blueprint of the Service's long-term and short-term planned and actual performance. As such, the effectiveness of these documents continues to evolve as both the Postal Service and interested stakeholders communicate about what information should be included and how it should be presented.

Overall, the Service provided a good description of its long-term plans, including its major goals and strategies, in its 5-year strategic plan, but the specifics of how it intends to reach its long-term goals and the resources that will be necessary to get there were not always as clearly stated in the annual performance plans. Moreover, we were disappointed with the usefulness of the Service's first annual performance report and identified areas for further improvement, as we discussed in our response to question 14. We recognize that the performance report was the Service's first effort in this area. As discussed in response to question 18, the Service has been responsive to our recommendations for improvements in its performance plans and performance reports. We have maintained a constructive dialogue with the Service, and based on the Service's responsiveness, we anticipate continued improvement in future performance plans and performance reports.

18. In responding to the recommendations contained in your recently issued report on Postal Service performance planning and reporting, the Service promised to make a number of changes in its future plans and reports. *How comfortable are you that the promised changes fully address the report's recommendations?*

The Service's final fiscal year 2001 annual performance plan—which was published on October 6, 2000, following our report and oversight testimony—made changes to implement our recommendations. However, we remained concerned about several areas where additional improvements are needed. The Service's responses to our recommendations included (1) adding more detailed explanations of why it changed or dropped some subgoals, indicators, and targets; (2) providing more complete baseline data; (3) providing more complete descriptions of strategies to accomplish some key goals; (4) updating and providing additional status information on major programs, including why the reported level of resources changed significantly from

the final 2000 performance plan; and, (5) summarizing why some baseline data were not available. The Service also provided more detailed information on its 2001 Capital Plan that included explanations of how specific investments would contribute to achieving goals such as improved productivity. In our view, these changes strengthened the Service's final performance plan.

In addition to these changes, the Service revised the format of the final performance plan to improve its clarity. For example, the final performance plan incorporated high-priority goals and changes to the goals in the main part of the document, where the Service presented its goals for fiscal year 2001. These changes will increase the usefulness of the report. The Service also appropriately restored national goals for improving overall productivity and improving labor productivity, which had been included in its final performance plans for fiscal years 1999 and 2000 but had been dropped from the Service's preliminary performance plan for fiscal year 2001.

However, the final performance plan for fiscal year 2001 did not fully implement our recommendation that performance plans are to include clear criteria for measuring the Service's success toward achieving stated goals. In several key goal areas, the final performance plan either did not specify targets or stated that the targets were subject to further change. For example:

- The final performance plan for fiscal year 2001 set a target of a net loss of $480 million but stated that this figure represented the proposed fiscal year 2001 operating plan, subject to further review and approval by the Board of Governors at its November 2000 meeting. The Service is required under GPRA to prepare an annual performance plan that is to "provide a basis for comparing actual program results with the established performance goals."[1] The usefulness of the final performance plan is diminished if the resource information presented has not been finalized.

- The final performance plan included a performance indicator to "Improve Area productivity over a 'hurdle' rate. The hurdle rate is the percentage productivity improvement over the threshold that is necessary to meet the national net income target. It is recalculated each accounting period, and is the same for each Area." However, the final plan stated that the specific numerical Area productivity targets were not available and would not be finalized "until the baseline data are final and all technical adjustments for cost and pay rate changes are complete. Additional information on Area productivity targets and achievement will be provided in the 2000 Annual Performance Report." This report is not expected to be issued until about half of fiscal year 2001 is completed. The Service's performance plan is required under GPRA to "establish performance goals to

[1] 39 U.S.C. 2803(a)(5).

define the level of performance to be achieved by a program activity."[2] Undefined performance indicators that are subject to continual change would appear to be of limited usefulness to postal managers, Congress, and others.

- Similarly, the final performance plan included a performance indicator to "Improve Performance Cluster productivity over a "threshold" value unique to each Performance Cluster. The threshold value is the percentage improvement over prior year performance that a Performance Cluster must achieve to qualify for the VOB [Voice of the Business] portion of the Economic Value Added program." However, the final performance plan did not provide the quantitative targets corresponding to this productivity indicator. Thus, the final plan did not articulate expected performance in this area.

In addition, the final fiscal year 2001 annual performance plan provided little discussion of a major development—the Service's target of a net loss of $480 million in fiscal year 2001, in contrast to the target of $500 million in net income in its preliminary performance plan for fiscal year 2001 and the revised target for fiscal year 2001 of $150 million in net income in its Strategic Plan. The final performance plan stated that: "Compared with the figures presented in the Preliminary 2001 Annual Performance Plan, these more recent 2001 projections reflect lower First-Class Mail and Priority Mail volumes as well as higher resource costs." However, it did not explain why the Service adopted a more conservative volume forecast or discuss why resource costs increased. The plan would have been more useful if it had provided fuller explanations to the major changes in these areas.

19. What made the Breast Cancer Research Semipostal successful, and do you believe future semipostals will fare just as well?

Generally, there have been three key factors contributing to the success of the Breast Cancer Research Semipostal (BCRS):

- First, the BCRS enjoyed broad support from the public and key breast cancer research stakeholders. About 71 percent of adults 18 years of age or older in the continental United States responding to our contractor's statistically representative public opinion survey were in favor of semipostals such as the BCRS, and cancer organizations–such as the American Cancer Society and the Susan G. Komen Breast Cancer Foundation—supported and encouraged the purchase of the semipostal.

- Second, the BCRS had no competition from other semipostals that might have diminished or slowed its sales among the general public. The Service did

[2] 39 U.S.C. 2803(a)(1).

considerable promotion on the BCRS and received an award from the Promotion Marketing Association for its efforts.

- Third, the BCRS was voluntary and convenient. The BCRS was voluntary in that postal patrons could choose to purchase the BCRS for First-Class postage at 40 cents or purchase any of the other, non-semipostal First-Class stamps at 33 cents. The BCRS was convenient in that it was to be widely available at post offices, postal stores, from rural carriers and some vending machines, and at some special events.

The success of any future semipostal may well depend on the issue the semipostal is promoting and the amount of support generated by stakeholders. Breast Cancer research is a well-known issue and generated widespread support from health research and support organizations. Semipostals promoting lesser-known issues and with limited organized support may not fare nearly as well.

20. As you know, GAO has reviewed the U.S. Mint's commemorative coin program. *Since commemorative coins share some similarities with semipostals, what lessons have been learned from the Mint's commemorative coin program that might apply to semipostal stamps?*

There were three basic lessons learned from the government's commemorative coin program that may be applicable to semipostals.

- First, the market may become saturated if there are too many competing products. In our report on the commemorative coin program, we noted that sales declined in the early 1990s as the number of commemorative coins proliferated. According to coin collectors, the Director of the Mint, and others, commemorative coin sales declined in the early 1990s because there were so many different commemorative coins that the market became saturated and could not absorb more. From 1982 through 1989, Congress authorized an average of less than one commemorative coin program per year, and the total number of commemorative coins sold averaged 4.5 million annually. In the early 1990s, however, Congress authorized an average of 2.7 commemorative coin programs per year, and the total number of commemorative coins sold per year fell to an average of 2.8 million.

- Second, if the product being sold does not enjoy broad public support and appeal, sales may lag. For example, our coin report noted that commemorative coins with themes that were popular with the commemorative coin market–such as the centennial of the Statue of Liberty and Ellis Island–sold well, but commemorative

coins with narrower appeal, such as the United Service Organization[3] coin, did not fare nearly as well.[4]

- Third, if a product is unpopular and sales fail to live up to expectations, the agency selling the product may be unable to recover its costs. In our coin report, we noted that the Mint recorded a loss on some commemorative coin programs because sales were not sufficient to recover its costs. In 1994, for example, the Mint reported losing $4.1 million on the World Cup coin program because of the coin's weak sales.

21. The GAO recently issued two reports on the diversity of the Service's executive and managerial levels. *Overall, has the Service been making progress in this area? Can you give us examples of what has helped the Service improve the diversity of its upper management levels? Are there opportunities for more improvement in this area?*

In our report on diversity in the Service's Postal Career Executive Service (PCES) levels[5], we stated that over the last 5 fiscal years—September 1995 through September 1999—women and minority representation among PCES executives generally increased by about 4 percentage points while white men's representation correspondingly decreased. Most of this change was primarily accounted for by the increase in the representation of white women, while representation among minority men decreased for the 5-year period. At the end of fiscal year 1999, women and minorities represented about 35 percent of the PCES executive workforce compared with their representation of about 58 percent in the Service's overall workforce.

Our June 2000 report[6] on the representation of women and minorities in the Service's Executive and Administrative Schedule (EAS) management-level positions at 83 of its 85 districts did not include a national trend analysis of the 83 district workforces. However, at the end of fiscal year 1999, the overall representation of women and minorities in EAS levels 16 through 26 represented a district average of about 49 percent compared with their average representation of about 56 percent across all district workforces (excluding EAS levels 16 through 26). Further, in the two districts we reviewed in detail—Chicago and Akron—we found that from fiscal years 1995 through 1999, women and minority representation among EAS levels 16 through 26 increased about 1 percentage point in the Chicago district and about 2 percentage points in the Akron district.

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[3] The United Service Organization provides services to active duty military personnel, such as emergency housing and food assistance.
[4] *U.S. Mint: Commemorative Coins Could Be More Profitable* (GAO/GGD-96-113, Aug. 7, 1996).
[5] *U.S. Postal Service: Diversity in the Postal Career Executive Service* (GAO/GGD-00-76, Mar. 30, 2000).
[6] *U.S. Postal Service: Diversity in District Management-Level Positions* (GAO/GGD-00-142, June 30, 2000).

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Our report on the PCES workforce said that the Service had various efforts under way or planned that were intended to increase diversity among the PCES executives. First, the Service required that its PCES merit performance evaluation process hold executives accountable for diversity-related performance objectives. Second, the Service developed management training programs to help employees better manage their careers. Third, the Service established a diversity oversight group to oversee corporate diversity initiatives. Similarly, we reported that the two districts where we reviewed the representation of women and minorities in EAS levels 16 through 26, also implemented diversity-related initiatives, including the use of training programs, such as the Associate Supervisor Program, and career development programs.

As the Service recognized in its comments on our reports, it can continue to make progress in the representation of women and minorities, particularly among its first-level supervisors and mid-level managers. We agree that continued focus on this issue is important to help develop an effective workforce that will facilitate achieving the Service's mission and goals.

22. After many reviews by GAO and the IG, it seems that the Postal Service has continuing problems in the acceptance of bulk business mail. *What should the Postal Service be doing?*

Postal management must, for the foreseeable future, remain vigilant in monitoring and maintaining the controls over all facets of business mail acceptance. These facets include controls to ensure that mail is properly prepared and that the proper postage is paid as well as the way revenue deficiencies are identified, adjudicated, and collected.

As we reported in 1996, the Postal Service recognized the need to have reasonable assurance that its bulk business mail operation adequately protects the Service from postage revenue losses. Toward that end, in 1989 and 1990, the Postal Service established a control system designed to give it such assurance. That assurance is dependent on the control system operating as designed, including the production of certain information that management determined was needed for monitoring and evaluating the effectiveness of the control system and making changes as appropriate. We reported that the system did not provide the Service with reasonable assurance that all significant amounts of revenue due from bulk business mailings were correctly identified and received. Further, we found that the Postal Service's bulk business mail control system also lacked a mechanism for identifying how much revenue was being lost, overall, by the Service accepting improperly prepared mailings. We concluded that unless the Service has an accurate indication of the magnitude of the risk, it will be hindered in (1) making informed decisions about the management attention and dollar investment necessary to manage and minimize

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revenue losses and (2) assessing the effectiveness of initiatives to improve revenue protection controls.

In November 1999, we reported that the Service had made changes over the acceptance of business mail that were generally along the lines that we recommended in 1996, and its controls overall appeared to have improved. However, we found that the Service had not fully addressed our 1996 recommendations that it ensure supervisory reviews of business mail acceptance procedures were performed and that it develop information for evaluating the adequacy of its business mail controls. We made additional recommendations for improvement; and in response, the Service increased the number of supervisory reviews.

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Questions From Representative Chaka Fattah

1. **In the recent Commission report on a Safe and Secure Workplace, it was noted that postal workers are six times more fearful than those in the national workplace and believe they are at greater risk of workplace violence from coworkers. Postal employees also are more likely to agree that managers and supervisors try to provoke employees to violence. Even the IG noted that managers can be intimidating. What is your reaction to these findings and what steps should the postal service take to address these concerns?**

   The findings of the Commission's report[7] appeared to be consistent with the results we reported in September 1994 from our review of labor-management relations.[8] We reported that labor-management problems were long-standing and had multiple causes that were related to an autocratic management style, adversarial employee and union attitudes, and inappropriate and inadequate performance management systems. In response to an employee opinion survey conducted by the Postal Service, many craft employees (40 percent) said that managers and supervisors did not treat employees with respect or dignity and that the organization was insensitive to individual needs and concerns. Most managers (58 percent) and supervisors (60 percent) said that poor employee performance was usually tolerated. Further, in October 1997, we reported on our subsequent review of the Postal Service's efforts to improve employee working conditions and found that little progress had been made in improving persistent labor-management relations problems.[9]

   As we noted in our earlier reports, we believe that in order for any improvement efforts to be sustained, it is important for postal management, the management associations, and postal unions to agree on common approaches for addressing labor-management relations problems, including those related to concerns of violence in the workplace. We are encouraged by continuing summit meetings where postal managers and representatives from the management associations and unions meet to discuss workplace problems and how to address them. In addition, the Postal

[7] *Report of the United States Postal Service Commission On A Safe and Secure Workplace*, The National Center On Addiction and Substance Abuse at Columbia University, August 2000.
[8] *U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor* (GAO/GGD-94-201A/B, Sept. 29, 1994).
[9] *U.S. Postal Service: Little Progress Made in Addressing Persistent Labor-Management Problems* (GAO/GGD-98-1, Oct. 1, 1997).

Service has recognized the importance of focusing on improving employee satisfaction as one of the organization's top three goal areas—the Voice of the Employee. In the Service's 5-year Strategic Plan and the annual performance plans, the Service has identified specific goals and targets that include (1) improving employees' safety, security, and well-being, (2) improving workplace relations by building leadership skills and behaviors, (3) improving understanding of employee issues and concerns, and (4) ensuring an inclusive and fair environment with opportunities for all employees. The annual performance reports provide an opportunity to closely monitor the Service's progress in this area. In addition, the strategic plans provide an opportunity for the management associations and unions to have input into the goals and targets that are set in this area, as well as input on the strategies that will be used to achieve these goals. As we mentioned previously, it will be important for postal managers and employees to work together if they are going to achieve the goals in this area and meet the competitive challenges that they all face.

2. **The Commission also issued 10 major recommendations to address potential underlying causes of workplace violence and tension. What are your thoughts on those recommendations?**

The Commission's recommendations to the Postal Service, its employee unions, and its management associations are a good place to start a dialogue. Again, if the implementation of these or other recommendations is to be successful, the affected parties need to agree on a common approach.

3. **Much has been said this afternoon regarding the possible alliance with the Postal Service and FedEx. Given your knowledge of the Emery carriage of Priority Mail packages, what concerns do you have about such a contractual arrangement?**

Although we do not have any specific information about the Emery contract or the possible alliance between the Postal Service and FedEx, we can highlight some of the broader public policy issues that might need to be addressed. First, the Service would need to allay concerns about potential unfair competitive advantages that such an alliance might pose. Second, the Service's customers would want assurance that they would still have access to reasonable prices and that quality of service would not deteriorate. Third, it is not clear what regulatory jurisdiction and oversight would apply to the approval and oversight of such an alliance. Fourth, contract liability or termination issues may need to be addressed related to the Service and its partner(s) if the terms of the alliance were not met.

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4. **You reported on the Postal Service's e-commerce activities, and recently testified on such before the Senate Postal Subcommittee. You have a number of recommendations that the Postal Service has agreed to adopt relative to inconsistencies in identifying e-commerce initiatives and in reporting the status of these activities. What is the status of Postal Service action on your recommendations?**

   We have recently begun a follow-up review to determine what actions the Service has taken to address our recommendations and plan to report on the status of the Service's efforts.

5. **At my request, you recently completed and issued a report on diversity among 83 postal districts located throughout the U.S. What lessons and initiatives were you able to identify for those districts that exhibited greater diversity? What were the reasons for such diversity and what were the reasons for the lack of diversity in other districts?**

   Overall, we reported that at the end of fiscal year 1999, women and minorities in 83 of the Service's districts represented a district average of about 49 percent of the management-level workforce (EAS 16 through 26) compared with their average representation of 56 percent across all district workforces (excluding EAS levels 16 through 26). The representation of women and minorities in EAS levels 16 through 26 in 83 of the Service's districts ranged from a low of 22 percent to a high of 95 percent.

   The two districts you asked us to study in more depth, Chicago—located in a large metropolitan area—and Akron—more geographically dispersed—differed in their representation of women and minorities in their management-level workforces at the end of fiscal year 1999. However, such representation in each district was close to that in their respective overall district workforces. It appears that several factors may have contributed to Chicago's higher representation of women and minorities in its management-level workforce. One, a much higher proportion of women and minorities was available in the Chicago district's civilian labor force than in Akron's, which the Service could draw upon. Two, Chicago has had greater management stability in recent years than has Akron, allowing for an opportunity to focus on implementing some of its diversity-related initiatives. Unlike Chicago, Akron's management team that deals with diversity issues had experienced turnover in the past 1½ years in the positions of district manager, diversity development specialist, and manager of human resources.

   Although the management-level representation and geographic structure differed, district managers in both Chicago and Akron identified the following three lessons related to increasing diversity in their management-level workforces that were

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common to both districts: (1) management must demonstrate its commitment to diversity, (2) training and career development programs must be made available to provide opportunities for women and minorities to ascend to supervisory and management-level positions; and (3) an environment must be established that encourages communications and cultural appreciation between management and employees.

KARLA W. CORCORAN
INSPECTOR GENERAL

January 3, 2001

The Honorable John M. McHugh
Chairman, Subcommittee on the Postal Service
Committee on Government Reform
United States House of Representatives
Washington, DC 20515-6143

Dear Chairman McHugh:

Enclosed is our response to follow-up questions from my oversight testimony before the Subcommittee on September 19, 2000. We appreciate the opportunity to address your inquiries and provide you with this additional information.

If you have any questions regarding our response or need further assistance, please contact our Director of Congressional and Public Relations, Ms. Laura Whitaker, or me at (703) 248-2300.

Sincerely,

Karla W. Corcoran

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Enclosure

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Office of Inspector General, United States Postal Service
Responses to Questions
Submitted by the House Subcommittee on the Postal Service
Committee on Government Reform
After the Oversight Hearing on
September 19, 2000

Proposed Strategic Alliance with FEDEX

Question 1

The Service reported that it is in negotiations with Federal Express Corporation to form a "strategic alliance" and that an agreement could be completed by October. It is reported that under the alliance the Service would deliver FedEx packages and use FedEx's air transportation network to transport Priority and Express mail around the world.

(a) What has been the involvement, if any, of the OIG in reviewing the proposed strategic alliance with FedEx? Have you had any further discussions with the Service regarding your inability to get information because of nondisclosure agreements?

Response

We plan to initiate a review of the alliance once it is finalized. To date, we have not been involved in reviewing the proposed strategic alliance with FedEx. Before our testimony in October, we requested information concerning this strategic alliance and received limited information. Since that time, we have had discussions with various Postal Service officials about their concerns that disclosure of information to the OIG would inhibit the Postal Service's ability to attract customers and other business partners.

(b) What role do you believe the OIG should play in reviewing proposed strategic alliances? At what point, and in what manner, should the OIG review a potential strategic alliance so that the legitimate business interests of the Postal Service and the potential partner are not compromised? How do you plan to perform your function without interfering in the negotiations?

Response

In reviewing strategic alliances, the OIG can play at least two roles before the alliance is completed. The OIG can serve as an independent reviewer of the proposed agreement to detect fraud, waste, abuse, and mismanagement. Also, once the alliance is a reality, the OIG can serve as an independent auditor to ensure the integrity of the agreement's implementation. In the FedEx case, the

OIG believes the more appropriate role at this time is to audit the impact of the alliance on various business aspects, including transportation, delivery, and retail operations, and to make recommendations to improve future agreements.

(c) Has the OIG been asked to validate whether the proposed strategic alliance has been developed pursuant to the Service's Strategic Alliance Guidelines or any other relevant review process?

Response

No.

(d) Has the OIG evaluated any of the Service's other strategic alliances, such as the agreement with CheckFree against the Strategic Alliance Guidelines? If so, in such cases did you verify that the Service properly followed those guidelines and met all their requirements?

Response

The OIG has reviewed selected aspects of the strategic alliance with the CheckFree Corporation. We are currently reviewing the execution, revenue generation, and return on investment of the strategic alliance agreement with the CheckFree Corporation under the provisions of the Postal Service Strategic Alliance Guidelines. The OIG is also initiating an audit of eBusiness agreements, including strategic alliances.

(e) *Has the OIG evaluated the Strategic Alliance Guidelines? If so, do you believe they contain the appropriate criteria to evaluate the financial soundness of any proposed alliance*?

Response

Yes, the OIG has evaluated several aspects of the alliance guidelines, including security, financial soundness, and contract aspects. Based on our review of the guidelines, we believe they generally provide sufficient guidance to evaluate the financial soundness of any proposed alliance.

Relocation Expenses

Question 2

You discuss the major challenges facing the Service. You cite public trust as an important factor in the Service's challenge of growing revenues and competing. Unfortunately, that public trust may have been violated when questionable relocation benefits were granted to two Postal Service executives. To make matters worse, those executives were the CFO and the Comptroller. The critics

of the Service had a field day with this episode. Many were pleased with the results of your audit and the outcome. The Board of Governors adopted a resolution to review each component of compensation and benefits for Postal Service executives and establish standards. It is also important to note that without an independent inspector general this issue may never have been adequately addressed, if at all, so that some of that public trust could be restored. It is troubling to me that the individuals involved could convince themselves that such clearly questionable arrangements were justified.

(a) Were similar special exemptions offered as an option to all other officers of the Service? Do you believe that these special benefits were intended as a way to circumvent the salary cap?

Response

Our audit found no evidence that special exemptions were offered to other executives. At the time of our audit, controls were not in place to ensure that the Board of Governors approved significant provisions of incentive plans such as relocation benefits. Subsequently, the Board of Governors passed a resolution requiring its approval of all officer incentive plans, including relocation. Since the payment of these relocation benefits was for retention versus relocation, we believe these benefits could be perceived as a way to circumvent the statutory limits on compensation.

(b) Is this simply an isolated case or does it reflect a general attitude among senior management that they are underpaid and therefore more deserving than other government executives?

Response

Postal Service officers are able to request benefits or enticements while negotiating their contracts. However, many individuals may be unaware of the Postal Service's ability to negotiate pay and benefits outside the general federal pay system.

The Postal Service is very concerned about its ability to retain and attract qualified executives. Several high-level executives have retired or left the Postal Service to work in the private sector. The Postal Service also must contend with the fact that a large number of its employees are or will be eligible for retirement in the next few years. About 64 percent of all Postal Service executives (PCES employees) are 50 years of age or more. Postal Service managers believe that the salary cap for government employees hinders their ability to compete with the private sector in attracting and retaining high-caliber executives. The private sector is free to offer salaries and other benefits that exceed those of the government.

Use of Chauffeur-Driven Vehicles

Question 3

You report that you found that some Postal Service executives improperly used postal vehicles and chauffeurs.

(a) In what ways did these executives misuse vehicles and chauffeurs? Please provide examples. When such misuse is uncovered how are such officials disciplined or required to compensate the Service for the personal use of government resources?

Response

Our audit of the use of chauffeur-driven vehicles by Postal Service executives revealed more than 520 instances where one field and eight headquarters executives misused chauffeurs and official vehicles. In some cases, the executives were transported between their homes and offices, although they were not in an official travel status. In other cases, executives used official vehicles to transport their spouses. In still other cases, official vehicles and chauffeurs were used to deliver packages or other items. These instances violated federal law and Postal Service policy. Federal law states that employees who willfully misuse official vehicles shall be suspended for at least 30 days and may be removed from office. The Postal Service has interpreted this statute to authorize comparable disciplinary action, such as demotion in lieu of suspension.

Resources and Major Challenges

Question 4

The Office of Inspector General (OIG) has been in operation since January of 1997. The OIG has established a strong presence and has conducted important investigations, audits and program reviews in support of Congress, the Board of Governors, management, the employees and the mail community. As a reflection of our desire to expand that presence and build on that success the Ranking Member and I recently encouraged the Governors to continue their support of your organization. I was pleased to hear that the Governors recently approved your budget request for FY 2001. The Subcommittee would like to know how the OIG plans to make use of its additional resources to build on its record of success.

(a) The OIG has taken on additional audit work from the Inspection Service. How and to what extent will the additional resources approved for FY 2001 be directed toward this new work?

Response

An additional 87 staff were approved for FY 2001. These staff included 40 to conduct field financial audit work previously performed by the Inspection Service, with the remainder of the staff to expand our procurement and expenditure investigations in accordance with the revised Designation of Functions.

(b) What are the major challenges that you face in meeting your responsibilities in the coming year? How have you positioned your organization to meet these major challenges?

Response

The OIG faces numerous challenges as it looks to the future. The key challenges include continuing to learn about the Postal Service and educating our stakeholders about the OIG's role and authority. To address these challenges, the OIG will continue to meet with the vice presidents and other Postal Service officials to increase our staff's knowledge of the Postal Service and give these officials information about the OIG's role and authority.

(c) What areas of postal operations do you believe are high risk and warrant close monitoring? What are your upcoming plans for reviewing these areas? In what areas have improvements been made?

Response

The OIG has previously identified the top ten major management issues facing the Postal Service, and for purposes of our annual audit planning, has consolidated them into the following areas:

- Growing revenues and competing in a rapidly changing market.
- Maintaining affordability by controlling costs.
- Improving the workplace climate and labor relations.
- Leveraging technology to enhance productivity.

In FY 2001, the OIG will concentrate its resources in these four areas. For example, to address the issue of growing revenues and competing in a rapidly changing market, OIG's audits will focus on new products and services, traditional operations, service performance and customer satisfaction, and public trust. The OIG FY 2001 Audit Workload Plan contains further details describing future work in this area, as well as the other areas listed above.

Economic Value Added Variable Pay Program

Question 5

You conducted a review of the Postal Service's Economic Value Added Variable Pay Program. Some employees have expressed the opinion that the goals that are measured and used to calculate EVA incentives are so far out of the control of individual managers, much less staff, that the annual bonus is seen as a "random" event. To them EVA doesn't tie to their individual level of effort. In addition, some employees view current individual pay for performance incentives as meaningless since the reward for outstanding performance is not significantly different from simply meeting expectations. Postal Service employees, as well as stakeholders may perceive EVA negatively.

(a) Do you agree with Postal Service Management that EVA forces productivity improvement?

(b) In the course of your review of EVA did you conduct any interviews with postmasters, mid-level managers, and professional staff to determine if EVA is viewed as an incentive to work harder, better and/or smarter?

(c) *Postal unions have rejected offers to be included in the EVA program in part because it does not increase base salaries. Have you detected similar attitudes among EVA eligible employees*?

Response

We are completing our review of the EVA program. We issued an interim report to Postal Service management addressing the public perception of paying such bonuses when the Postal Service was projecting a net loss, anticipating reductions in staff, and asking for approval of a postal rate increase. In our final report, we will evaluate the EVA payout model. We also plan to continue our review of the EVA program, looking at areas such as whether EVA forces productivity improvement and provides an incentive to get employees to work harder, better, and smarter; and how EVA impacts overall pay and benefits.

Certified Mail Service Delays

Question 6

At my request, you conducted a review of certified mail service in five locations following media reports of severe delays. You confirmed that certified mail was a delayed from two to forty days in four of the five locations. You reported that

delays were primarily attributable to inadequate staff of mail processing operations. I believe there are important lessons to be drawn from this problem.

(a) Why do you believe, as with so many other issues, that these delays were first reported to the press and not to the IG, the Inspection Service, Congress or, as it should be, to higher-level management? Clearly, postal employees working in these facilities were aware of these delays but were apparently afraid to report the problem through appropriate channels. How can employees be encouraged to report such problems so they can be dealt with expeditiously?

Response

Our review disclosed that these delays were not reported to the OIG because the complaint came from Postal Service customers who may not have known about our office. In some cases, customers had notified local Postal Service officials who had not satisfactorily addressed the issues.

Postal Service employees were aware of the problem with certified mail, but this information was not communicated beyond first-level supervisors and managers. Delayed certified mail was not reported to higher management because of internal communication failures and the lack of a defined reporting system for delayed certified mail.

Educating postal stakeholders about the OIG is needed so that the public and Postal Service employees understand the OIG's role. In addition, employees need to feel the OIG is a trusted, independent, and confidential agent for addressing issues. OIG employees are continuing to inform Postal Service employees about the OIG as an avenue to address problems and concerns relating to fraud, waste, abuse, mismanagement, economy, and efficiency.

(b) Was inadequate staffing the result of "Breakthrough Productivity" program and its emphasis on cutting workhours?

Response

The OIG found no evidence that the Breakthrough Productivity program caused the delays. While no one specifically attributed certified mail delays to managers' annual cash awards under the Economic Value Added Variable Pay Program, we noted that budget considerations, which are measured by this program impacted overtime decisions. The inadequate staffing that contributed to the delayed certified mail was mainly the result of inadequate planning to handle seasonal surges in certified mail, and in one location was caused by the cancellation of overtime. Certified mail operations, however, were properly staffed to handle normal certified mail flows.

(c) It would seem that certified mail volumes are rather predictable as they are closely linked to cyclical events such as tax seasons. Why was local management incapable of forecasting certified volume and staffing accordingly? Were there some anomalous events that caught management by surprise?

Response

Delays in processing certified mail were primarily caused by local managers' lack of planning for the increased volume of certified mail during the tax season and by inadequate staffing. Our review of certified mail flows showed that these volumes have been increasing, but the surge in mail volume during the tax season should have been forecasted. While the media reported that problems with a new computer tracking system for certified mail created the delays, we found this was not a cause for the delays. The acceptance of lower delivery standards for certified mail during the tax season in prior years appeared to set an inappropriate precedent.

Designation of Functions and Team-Building

Question 7

The Subcommittee is interested in examining the progress OIG and the Inspection Service have made in the difficult task of sorting out their respective functions and establishing good working relationships among managers and field personnel.

(a) Do the Inspector General and the Chief Postal Inspector meet on a regular basis to discuss the important issue of coordinating the work of their respective organizations?

Response

The Inspector General and the Chief Postal Inspector meet periodically to discuss relevant issues. In addition, they communicate on an as-needed basis to address emergening issues.

(b) What other teambuilding activities have the OIG and the Inspection Service engaged in to improve and coordinate their collective efforts to improve the Service?

Response

OIG and Inspection Service senior-level executives meet on a monthly basis to identify and discuss issues of mutual concern, such as investigative referrals,

resolution of jurisdictional issues, and improving communication. Other OIG staff meet, as needed, with Inspection Service staff to discuss relevant issues.

Question 8

In your testimony, you mentioned that although the OIG and the Inspection Service have successfully concluded certain initiatives related to your new roles, many issues are still outstanding.

(a) Please elaborate on what issues of conflict remain and how you are working with the Inspection Service to resolve them.

Response

Numerous areas of conflict remain between the OIG and the Inspection Service. The most pressing of these issues is the exchange of information between the two groups. For example, the OIG is required by law to report on all fraud, waste, and abuse relating to the Postal Service in the Semiannual Report to Congress. The OIG believes this reporting requirement includes all Inspection Service activities in these areas. However, the Inspection Service has been reluctant to provide us with all of the information we have requested from them for the Semiannual Report to Congress, and has published its own annual report summarizing its activities. In addition, some senior-level Inspection Service officials in field locations remain reluctant to directly provide our employees with requested information, without going through Headquarters for approval.

(b) Has the revised Designation of Functions been fully implemented? If so, has it been successful?

Response

The revised Designation of Functions, which was approved in April 2000, has been fully implemented. An educational process is under way to inform all Postal Service employees and the general public of each agency's respective responsibilities. Interpretation issues continue to arise under the revised Designation of Functions. While the Designation of Functions serves as the agencies' framework for determining jurisdiction and responsibilities, it cannot definitively address all contingencies. Specifically, in the area of eCommerce, the OIG and the Inspection Service continue to refine the methodology for identifying and developing the role of each agency. However, the revised Designation of Functions has resulted in better coordination of the OIG's efforts.

Question 9

Last year you reported that there was an unresolved issue regarding OIG executive investigations of Postal Inspectors.

(a) Has that issue been resolved to your satisfaction or is it still pending?

Response

We have established a notification protocol that requires the Inspection Service to take the following actions when a complaint is received against a senior-level Inspection Service manager at the ISLE-15 level. The Inspection Service is required to:

- Notify the OIG and provide details of the complaint.
- Provide the OIG with a copy of the investigative case jacket, which defines the complaint and gives the case number.
- Notify the OIG when field investigative work has been completed and a report prepared.
- Advise the OIG of the results of investigative activities, any proposed actions, and any final actions taken.

While the protocol provides a basis for the OIG to actively monitor investigations of ISLE-15 managers, the OIG will continue to observe the process to ensure effective oversight of the Inspection Service. Additionally, the OIG has reserved the right to require additional progress reports from the Inspection Service or independently review these matters if warranted.

Recruiting

Question 10

Last year you reported that you appointed a "hiring czar" to focus and consolidate your recruiting efforts. You also indicated that you refined your recruiting strategy.

(a) Please provide an update of your progress in improving your recruiting efforts.

Response

As of July 2000, we had reached our hiring target of 648 employees based in large part on the efforts of the hiring czar.

(b) Please describe any changes you have made in your recruiting, interviewing and hiring practices to meet your goals of filling your FY 2001 authorized positions.

Response

Due to the effectiveness of our current hiring practices, no changes have been made in recruiting, interviewing, or hiring practices for FY 2001.

Reorganization

Question 11

Last year the OIG was reorganized.

(a) Please describe the purpose of the reorganization and how you believe the new structure will improve the operations and output of the organization.

Response

The reorganization that we announced in May 2000 was implemented to better reflect the Postal Service's business processes and the new Designation of Functions between the OIG and the Inspection Service, and to be more effective and responsive in providing information to OIG stakeholders. One of the most significant organizational changes was realigning and renaming all of our teams under the areas of eBusiness, Business Operations, Business Protection, Oversight and Business Evaluations, and Internal Business. The changes also included dividing the field liaison functions into east and west areas of operation and moving three internal teams to more prominent positions within the organization.

(b) Please provide for the record a listing of the staffing levels and number of authorized positions for your major headquarters organizational units.

Response

As of October 1, 2000, the OIG had 460 staff located in Rosslyn, Virginia. The OIG, when originally created, used the concept that audits and investigations would primarily be conducted through a centralized management concept, with field offices collocated with the Postal Service data centers. Therefore, the bulk of the OIG staff is in Rosslyn, Virginia. As knowledge of the Postal Service was gained, the original concept was modified, and now the OIG has 14 field offices. As attrition occurs at Rosslyn, additional headquarters positions will be assigned to the field. In addition, the OIG recently established an east duty station in Rosslyn that will be staffed with over 100 people transferred from headquarters.

(c) Please provide for the record a listing of the staffing levels and number of authorized positions in your field units.

Response

As of October 1, 2000, the authorized staffing for field offices is 265 in the following locations: Atlanta, Boston, Chicago, Dallas, Denver, Los Angeles, Minneapolis, New York, Pittsburgh, Portland, Raleigh, San Mateo, St. Louis, and Tampa.

(d) Please discuss your plans to open additional field units and why such units are needed at those locations.

Response

In order to provide timely and effective services to our stakeholders and to reduce the amount of travel that our employees must perform in FY 2001, the OIG has been authorized to open four new offices in Boston, Pittsburgh, Portland, and Tampa.

Managing Workload, Systemic Issues, and Follow-up Procedures

Question 12

Last year you reported that you had made substantial progress in dealing with the high volume of Congressional and public (hotline) requests for audits, investigations, and other relief and information.

(a) Please provide an update on your efforts to manage such requests and to be responsive in a timely manner.

Response

We are maturing as an organization, and while we continue to receive numerous Congressional and other requests, we feel we have developed a process to adequately and promptly address these requests. We have launched several initiatives during the last year and are continuously identifying opportunities for improvement.

(b) You stated that you categorize the individual cases in order to identify systemic issues. What issues have you identified as systemic as a result of your categorization process?

Response

As a result of our categorization of Congressional and hotline complaints and issues, we have identified systemic issues in many areas, including labor management, contracting, delivery, and financial management.

(c) Have you initiated any Postal-wide reviews to address these issues?

Response

Yes. The following are examples of reviews that have been completed to address these systemic issues. For instance, we:

- Determined how well postal districts implemented the Postal Service's policies regarding violence prevention and response programs.
- Evaluated the Postal Service's internal controls for preventing and minimizing conflicts of interest in the award of contracts.
- Determined that the Postal Service's Revenue Assurance process did not treat mailers fairly in the past and that the Postal Service's corrective actions, while demonstrating a willingness to address mailers' concerns, did not fully address all of the issues raised by the mailers.

Question 13

It has been reported to the Subcommittee that certain OIG investigations have been conducted and closed without anyone ever contacting or interviewing the original complainant.

(a) Does a policy exist regarding the circumstances under which the original complainant should or should not be interviewed or contacted?

Response

When we receive individual allegations, we screen each one to determine whether it deals with personnel issues requiring a fact-finding review; systemic issues warranting an audit; or criminal issues resulting in an investigation. We call all complainants when, after our initial screening, we determine that we are going to do work, whether it is a fact-finding review, audit, or investigation. When we have determined that we are not going to do additional work, complainants generally are not contacted for additional information or clarification. Consistent with our statutory oversight responsibilities, we also contact all complainants whose allegations address activities of the Inspection Service or the conduct of any Inspection Service employee.

(b) Do you believe the original complainant should be at least notified of the outcome of his or her complaint?

Response

For Congressional requests, we provide a formal closeout letter detailing the outcome of our fieldwork to the Members of Congress, so that he or she may notify constituents. If the Member specifically requests us to respond directly to the constituent, we will do so. For other complaints, if the complainant asks to be notified as to the outcome of their complaints, we will provide this information if not prohibited by law.

(c) What is the process for the distribution of OIG reports? Are copies automatically provided to certain parties or are reports made available only upon request?

Response

OIG audit-related reports are automatically distributed to the following parties:

- House and Senate Committees and Subcommittees responsible for oversight of the Postal Service.
- Postal Service Board of Governors.
- Postal Service management.

The OIG also makes certain reports available without requiring a Freedom of Information Act (FOIA) request. These reports can be accessed through our website under the FOIA Information and Electronic Reading Room. If the desired report is not available online, a copy may be requested under FOIA via written request.

(d) Do you have any plans to follow-up on the investigations mentioned in your testimony?

Response

All fact-findings, audits, and investigations mentioned in my testimony were either completed or substantially completed. We will continue following up on audits and investigations addressed in my testimony. For example, as part of the audit resolution process, we track recommendations to determine whether management has implemented agreed-upon actions or established suitable alternatives, and whether the actions have corrected the deficiencies previously reported. Also, we continue to work on all criminal investigations until they have been successfully prosecuted or prosecution has been declined by the

Department of Justice, or state or local prosecutors. If prosecution is declined and if appropriate, we will provide Postal Service management with the information needed to take administrative action.

Financial Statements

Question 14

Last year the OIG became Co-Contracting Officer's Representative for the financial statements.

(a) How effective has this joint arrangement been? Do you believe that it has in any way undermined your ability to perform your audit responsibilities?

Response

The joint arrangement has been workable and has not undermined our ability to perform our audit responsibilities. The OIG remains responsible for all audits conducted within the Postal Service except for the financial statement audit, which is the responsibility of the Board of Governors and the independent public accounting firm selected by the Board.

Electronic Commerce

Question 15

The Subcommittee would like to clarify some issues regarding your reviews of the Service's E-Commerce initiatives. We also have specific questions regarding your statement before the Senate Subcommittee on International Security, Proliferation, and Federal Services. In your statement you say that the Service "has positioned itself to be a major player in the emerging electronic commerce marketplace."

(a) Is it your position that the Service will capture a significant share of the E-commerce markets in which it has or plans to enter? Please provide a basis for this statement or clarify what you mean.

Response

With new projects such as USPS eBillPay, Post Electronic Courier Service, and Electronic Postmark, the Postal Service has begun to position itself in the emerging electronic marketplace. It remains to be seen whether the Postal Service will be a major player and capture a significant share of eCommerce markets. In September 2000, the General Accounting Office reported that some

electronic initiatives, such as eBillPay, were not currently generating revenue, but the Postal Service planned to generate revenue from these initiatives in the future. Historically, our work has shown that the Postal Service's new development projects were frequently based on overly optimistic savings and cost assumptions, resulting in overstated projections of return on investment. Projects we audited containing overly optimistic assumptions include the Tray Management System, the Robotics Containerization System, and UniSite Wireless and Cellular Services. We plan to address these issues in evaluating eCommerce initiatives.

Question 16

In your discussion of lessons learned you highlight the importance of organizational structure to the success of E-Commerce initiatives. You note initial disorganization of the Service's Y2K program and the lack of a single source or focal point within the Service that was responsible for computer security. Apparently the Service has tried to address this issue by creating the Electronic Business Opportunity Board (e-BOB) and a new e-BOB process to review initiatives.

(a) Has the OIG examined this new panel and its process of review? If so, to what extent does it address your concerns for a need for an effective organizational structure to support E-Commerce initiatives?

Response

We are currently looking at the e-BOB charter. The e-BOB, along with other organizational changes, has gone a long way to address some of our initial concerns about the need for an effective organizational structure. As we continue to do work in this area, we will monitor the progression of Postal Service development of an eCommerce organizational structure.

Question 17

The GAO in its review of the Service's E-Commerce initiatives observed that the Service was disorganized and that the Service did not have any reliable systems in place to track costs and revenues.

(a) In reviewing the Service's E-Commerce initiatives has the OIG observed similar problems?

Response

In recent OIG written testimony before the Senate Subcommittee on International Security, Proliferation, and Federal Services, we reported that the interim eCommerce organization responsibilities were fragmented and that senior managers' mainstream functions were commingled with eCommerce functions. We have also observed that multiple eBusiness initiatives were funded under the same finance number, and we could not obtain a breakout of dollars spent on individual initiatives. These problems are not unique to eCommerce, and the OIG has observed a number of traditional postal programs with similar issues.

Question 18

In your statement you noted that in your review of the Service's new product initiatives the planning had not always been comprehensive, integrated, strategically focused, or linked to the budget process, and did not consider proper assumptions. You also note that in the area of systems development, projects were frequently based on overly optimistic savings and cost assumptions.

(a) *In your review of E-Commerce initiatives has the Service demonstrated any improvement in this area particularly with regard to the assumptions that support its E-Commerce initiatives?*

Response

In upcoming reviews of specific Postal Service projects, we plan to address issues of cost and return on investment related to eCommerce and the e-BOB role. Historically, our work has shown that the Postal Service's new development projects were frequently based on unrealistic assumptions, resulting in overstated projections of return on investment. However, the Postal Service's recently established e-BOB process requires that detailed financial assumptions and projections be reviewed a project is approved. Our audit will determine whether this process has improved the Postal Service's ability to provide realistic assumptions.

Question 19

You express concern for the Service's computer security. You indicated a need to develop a more comprehensive, integrated computer security program and that the Service should make security a higher priority.

(a) *Has the Postal Service been responsive to your concerns? Has the Service initiated any formal process to review its computer security procedures?*

Response

We recently issued a final report on the state of computer security in the Postal Service and made recommendations that we believe will help Postal Service management improve its computer security posture. Postal Service management agreed with all of our recommendations and laid out a course of action that will improve security overall. The Board of Governors recently approved funding for this project. We are satisfied with the corrective actions promised by Postal Service management and plan to monitor implementation during the coming year.

(b) Have there been any instances of hacking into any of the Service's computer systems?

Response

The Postal Service and the OIG monitor and detect on a daily basis potentially hostile probes, scans, and attempts to improperly access Postal Service computer systems. Serious incidents that are detected and are reported to the OIG result in a criminal investigation. Recently, the OIG led an international investigation into the defacement of a Postal Service web page. That investigation led to a successful conviction of the hacker, who was sentenced to 10 years in jail (suspended) and ordered to reimburse the victims, including the Postal Service, for damages suffered as a result of the act. This is the first successful conviction of a Postal Service hacking case to result from an OIG investigation.

IG Return on Investment

Question 20

You note that the progress the OIG has made in its infrastructure this past year has allowed it to identify savings resulting in a projected return on investment of 4 to 1 for this year. This seems to be an impressive accomplishment.

(a) Please explain how this figure was derived? Do other IG offices or audit agencies develop similar statistics regarding their operations? *If so, do such organizations show similar results?*

Response

The return on investment was calculated by dividing our estimated FY 2000 total return (consisting of funds put to better use, questioned costs, investigative fines and penalties, and investigative recoveries) by our estimated operating

expenses. The Inspector General community reports funds put to better use, costs questioned, and investigative results in its Semiannual Reports to Congress. This information is consolidated each year in the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency Annual Report. The annual results for an individual Inspector General's office vary greatly, depending on its mission, activities, and agency programs.

Revenue Assurance

Question 21

At my request, you reviewed the Postal Service's revenue assurance process. You disclosed that revenue deficiency assessments were not timely, mailers did not receive advance notice of deficiencies, and deficiencies assessed were sometimes due to incorrect information given by Postal Service personnel to mailers. Postal Service management agreed and outlined several initiatives to resolve the issues raised by mailers about the revenue assurance process. The problem with the revenue assurance program, and its inconsistencies in verification and enforcement, may be an example of how in a large organization sometimes "one hand does not know what the other hand is doing." As a result, customers get extremely perplexed when dealing with the Service.

(a) As a result of your efforts to categorize the requests you receive from Congress, postal customers, and employees, have you identified other areas where the Service is inconsistent in its application of regulations so that customers, employees, and suppliers are not treated in a fair and equitable manner? Are there areas where rules and regulations are simply lacking?

Response

Yes, we have found areas where Postal Service managers have been inconsistent in applying regulations so that customers, employees, and suppliers may not be treated in a fair and equitable manner. In particular, our investigations often target individuals who circumvent or bypass controls. In contracting and in new areas such as eCommerce, we have found that in some instances, there are insufficient rules and regulations governing specific actions or programs.

Commercial Mailing Receiving Agent Regulations

Question 22

The Service's proposed changes to regulations on Commercial Mail Receiving Agents have created a firestorm of protest from CMRA owners and customers.

You recommend that Postal Service management justify future regulatory changes prior to enactment. Some have suggested that the Postal Service should be subject to the Regulatory Flexibility Act and the Paperwork Reduction Act.

(a) Do you have an opinion as to whether the Service as well as the postal stakeholders would benefit from subjecting the Service to these laws?

Response

Exemption from the Regulatory Flexibility Act and the Paperwork Reduction Act allows the Postal Service to operate in a competitive environment. Based on our review of proposed regulatory changes affecting the Commercial Mail Receiving Agency industry alone, we cannot suggest that the Postal Service should be subject to across-the-board compliance with these Acts. We do, however, agree with the Postal Service's decision to adopt various legal requirements as a matter of policy, even though they do not specifically apply to the Postal Service.

Air Carrier Service Failures

Question 23

I am interested in your review of air carriers' performance and your disclosure that in FY 1999, $5.6 million in ground handling services was being paid to air carriers for work performed by Postal Service employees.

(a) To what extent did the failure of air carriers to meet their on-time delivery targets cause the mail to miss the cutoff for processing resulting in delayed mail?

Response

Our audit of the performance measurement system for commercial air carriers revealed that FY 1999 on-time performance was only about 60 percent. The performance measurement system, however, could not directly link late mail to air carrier performance, or measure all activities that impacted air carriers. Consequently, carriers may have received low scores for delays outside their control. Our audit report recommended that the Postal Service suspend the use of its performance measurement system and either redesign the system or develop other options to improve air carrier performance.

(b) Was the Service able to assess and collect penalties from the air carriers for service failures? If so, how much and does the Service regularly collect all penalties it is owed?

Response

Because the Postal Service performance measurement system was unable to directly link on-time performance to causes within the control of air carriers, the Postal Service did not assess or collect penalties for low on-time performance scores.

(c) Has the Service made adjustments to contracts to capture the approximately $28 million over the next five years you have identified?

Response

As part as its negotiations with commercial air carriers for the new Air Systems contract, effective September 2000, the Postal Service added provisions that allow contract adjustments under certain circumstances. As a result, the Postal Service can now reduce payments to carriers when Postal Service employees provide services that carriers are obligated to provide.

(d) Does the OIG plan to monitor the Service's effort to develop a new measure of air carrier performance?

Response

The OIG follows up on significant recommendations to ensure that the Postal Service takes agreed-upon corrective actions in response to audit recommendations. Our FY 2001 Audit Workload Plan includes an audit of air operations, which will assess efforts to develop new performance measures for air carriers.

Budget Process and Strategic Goals

Question 24

You commend the Postal Service for its extensive efforts to reduce its budgeted and actual expenses by about $675 million through reductions in headquarters programs to preserve financial goals for FY 1999. However, you found that the Postal Service reduced expenses without considering the long-term strategic impact on programs and operations, including its potential impact on the FY 2000 net income. Postal Service management agreed with your suggestions to ensure that future budget reductions consider the Postal Service's strategic goals. The Service's Draft 5-year Strategic Plan indicates that the Service itself acknowledges that it faces an uncertainty with respect to future demand for mail products and services. As such, it will be difficult to plan and budget for future capacity.

(a) Do you have any plans to develop recommendations to the Service on ways to develop a more flexible budgeting process in order to adapt more quickly to changes in demand? Please explain.

Response

We are completing a review of budget issues. The report will be finalized in early 2001. We will provide the Subcommittee with the report as soon as it is completed.

(b) Do you have any plans to develop recommendations to the Service on ways to avoid long term contractual commitments for capital investment and supplies and services that may not be needed if the more pessimistic prediction of electronic diversion comes to pass?

Response

As we review each program, we will be aware of the potential to assist the Postal Service in avoiding long-term contractual commitments for capital investment and supplies and services that may not be needed if the more pessimistic prediction of electronic diversion comes to pass. We will pay particular attention in the areas of newly developed systems and new contracts.

DraftWorldwide

Question 25

Mr. Davis and I requested that you investigate allegations of unfair and unequal treatment of the marketing firm DraftWorldwide by the Postal Service in regarding the solicitation for advertising services. Based on the material I have reviewed, I am concerned that this particular firm, the largest direct marketing agency in the country with a strong track record of success supporting the Service, was disqualified for the wrong reasons. The allegations include manipulation of the process and pressure on direct report employees by headquarter managers to ensure that DraftWorldwide was eliminated from competition.

(a) Without prejudging your investigation, do you have any initial thoughts on this issue based on the materials you have seen?

Response

The procurement process used by the Postal Service for these advertising services included two prequalification phases. The prequalification process includes publicizing opportunities and evaluating supplier-specific performance evaluation factors to decide which suppliers to include on the prequalified list.

Suppliers on the prequalified list are then given the opportunity to compete for future Postal Service purchases.

The OIG reviewed this process and issued an audit report in September 1998. We reported, among other results, that the Postal Service had not always established cutoff scores in advance for prequalification of suppliers. We also reported that the Postal Service had not always applied consistent criteria in evaluating suppliers. We recommended that the vice president, Purchasing and Materials, direct appropriate Postal Service personnel to determine the prequalification evaluation criteria, methodology, and approach and identify them in the initial planning documents. Although Postal Service management believed their existing policy at the time addressed our recommendation, they stated they would share our concern with purchasing personnel. Postal Service management stated that they did not agree with establishing arbitrary cutoff scores for suppliers considered for prequalification before the process was completed.

In response to your request, we are currently evaluating the procurement of these advertising services. To date, we have interviewed over 20 Postal Service officials and DraftWorldwide management officials and have reviewed documents provided by the Postal Service and DraftWorldwide. We are in the process of completing this review.

Postal Service Procurement Process

Question 26

I am also concerned that this case may be indicative of pervasive problems in the procurement process. The GAO reported to me in 1996 that problems in the Postal Service's purchasing program were due to poor judgment and decisions to circumvent existing controls that, there were ethics violations, and that purchasing problems were costly to the Service. Since that time, the Service has claimed that it made changes to reduce the risk of problem purchases.

(a) Please discuss any concerns you may have with the procurement process. Have you uncovered any cases where procurement controls were circumvented?

Response

Postal Service purchasing policies, which are intentionally less stringent than the Federal Acquisition Regulation used by other federal agencies, give Postal Service purchasing personnel greater discretion and flexibility in implementing purchasing policies. Based on our reviews and investigations, we are concerned that these purchasing policies have led to inconsistencies in managing the

procurement process and could threaten the integrity of the process. We have also reported concerns with the Postal Service's award of personal service contracts to former employees to supplement staff, letter contract awards with undefined prices, contract awards to major suppliers with inadequate and unreliable accounting and estimating systems, inadequate documentation of efforts to establish fair and reasonable contract prices, inadequate oversight of contractor performance, suppliers not fulfilling contract requirements, and procurement ethics violations.

During FY 2001, we plan to conduct reviews addressing some of our more significant concerns with Postal Service procurement activities. Some of our planned reviews will focus on the Postal Service's use of letter contracts, internal controls for preventing or minimizing conflicts of interest in contract awards, sole source award justifications, and the adequacy of contracting officer training and certification for oversight of contractor performance.

Office of Inspector General, United States Postal Service
Responses to Questions
Submitted by the Honorable Chaka Fattah
House Subcommittee on the Postal Service
Committee on Government Reform
After the Oversight Hearing on
September 19, 2000

Violence Prevention and Response Programs

Question 1

You reviewed the Postal Service's implementation of the Violence Prevention and Response Programs and found that there is potential for violence in 26 district offices because prevention strategies have not been implemented. Do you have any idea when implementation will occur?

Response

In response to our reports covering 19 of the 26 districts, Postal Service management officials stated that implementation has already occurred for most of our recommendations. For example, they stated that facility security reviews have been conducted, violence awareness training has been completed, and customized crisis management plans have been developed and disseminated to all facilities. We anticipate receiving management's comments in February 2001 on the recommendations we made to the remaining seven districts.

Allegations of Abusive Supervisors

Question 2

As you know, I contacted your office in 1998 to investigate allegations of abusive supervisors. I note in your testimony on page 19 that you have found that in many instances, managerial behaviors have resulted in lower morale. What should the Postal Service do to correct this situation and how much does this contribute to employee concerns about abusive managers?

Response

The Postal Service must respond quickly and consistently to take appropriate disciplinary actions when instances of abusive managerial behaviors are reported and substantiated. Our reports have included recommendations that the Postal Service also provide remedial training and counseling when appropriate and take proactive steps to improve managers' interpersonal and conflict management

skills. Because we have not conducted a systemic review, we cannot make a general statement regarding the extent to which abusive managerial behaviors have impacted employees' concerns about these managers.

Unsafe Working Conditions

Question 3

Two years ago Congress passed legislation, which applied OSHA regulations to the Postal Service. How widespread are unsafe working conditions in the Postal Service?

Response

We have reviewed individual allegations of unsafe working conditions, but have not assessed to what extent unsafe working conditions exist postal-wide. Currently, we are performing a review of whether Postal Service health and safety inspections are effective in identifying, tracking, and prioritizing health and safety conditions in Postal Service-owned facilities. This review should provide some indication of the extent of unsafe working conditions in the Pacific Area of the Postal Service.

Economic Value Added Variable Pay Program

Question 4

On page 6 of your written testimony, you discuss your review of the Postal Service's Economic Value Added Pay Program. How much of postal productivity is related to the value added pay program? Does the increase in productivity correlate to FY 1996 increased payments of 16 percent to FY 2000 increased payments of 325 percent?

Response

While we reported on the increased EVA payments as a percentage of net income, we understand that incentive plans like EVA are designed to provide employee motivation to achieve financial and organizational improvements, even during periods of reduced or negative net income. In FY 2001, we plan to conduct reviews that focus on productivity measurement in the Postal Service. We will provide you with the results of these reviews as they are completed.

Questions submitted to Postmaster General William J. Henderson
In follow-up to the Oversight Hearing September 19, 2000

1. As you are aware, the GAO has expressed concern that the Service's most recent performance plan and report may not be as useful to Congress, postal managers, and others as they could have been.

What improvements are planned in this area?

A number of changes to the final 2001 Annual Performance Plan were made in response to GAO's comments on the Preliminary 2001 Annual Performance Plan. The specific GAO concerns and Postal Service responses are listed below.

1. Without detailed explanation, several prior years' subgoals -- and their associated indicators and targets -- were not carried forward into the fiscal year 2001 Preliminary Performance Plan.

In the final 2001 Annual Performance Plan, each of the three Voice goal discussions now includes a section that describes the reasons for changes in the 2001 subgoals, indicators and targets.

2. The criteria the Service used to measure its success toward achieving certain goals were unclear (specifically, the VOB Area productivity improvement subgoal and the VOE subgoal of ensuring an inclusive and fair environment with opportunities for all employees).

The specific numerical Area productivity targets for 2001 will not be finalized until the baseline data are final and all technical adjustments for cost and pay rate changes are completed and audited. Additional information on Area productivity achievement will therefore be provided in the 2000 Annual Performance Report, which is expected to be published in February 2001. Additional information on the VOE inclusive and fair environment indicators and targets is provided in the VOE section of the final 2001 Annual Performance Plan.

3. The descriptions of strategies to accomplish certain results were incomplete (specifically, new products and services and e-commerce).

The final 2001 Annual Performance Plan includes new material on goal achievement strategies for each of the Voice goals. New product and service initiatives, including PC Postage, e-commerce and other e-business plans are described in the discussion of VOB strategies and in the Major Programs section of Appendix B.

4. Information contained in prior years' plans was carried forward into the current year's plan without always being updated to reflect known or

anticipated changes (specifically, the advertising and expedited services programs).

A new section that compares the resource levels of the major programs in 2000 with those in 2001 has been included in the Resources and Programs section of the final 2001 Annual Performance Plan. Also, the description of the major programs (Appendix B) has been augmented in the final 2001 Annual Performance Plan to reflect any significant status changes. The final plan reflects changes to planned 2001 resource allocations that have occurred since the publication of the Preliminary 2001 Annual Performance Plan in February 2000.

5. Baseline data for several quantitative indicators were not provided, but little or no explanation was given.

For each of the three Voice goals, the final 2001 Annual Performance Plan includes new material that explains any changes to goals, indicators and targets since the publication of the former year's plan. Also, the final 2001 Plan contains newly available baseline information for several of the indicators mentioned by GAO. Baseline data are normally not reported until the indicators have been deployed and several quarters of actual results are available to allow detection and correction of any flaws in the process. Occasionally, these early results show that valid data cannot be obtained for a particular indicator, which requires more time to develop an alternative. Baseline data for other new indicators will be reported in future Annual Performance Plans as soon as accurate results are available.

2. In the Service's 1999 Performance Report, the Service stated that it met its goals for timely delivery of First-Class Mail based on its performance in the last 2 quarters.

a) *Why didn't the Service count its performance for the first 2 quarters—which covers the busy holiday season—toward its goals for timely mail delivery?*

The 1999 target for timely delivery of First-Class Mail was based on performance of quarters three and four. However, the 1999 Performance Report also contained results for both the third and fourth quarter composite performance and a four-quarter composite score. The third and fourth quarters composite performance results were listed in the performance table (Table 5-4 of the *1999 Comprehensive Statement on Postal Operations, Chapter 5, 1999 Performance Results,* pages 116-117). The narrative description of the results for timely delivery on pages 118-119 contained both a recap of the composite score for the last two quarters and the four-quarter performance results.

b) *Similarly, the Service reported that it had not set performance targets for all of its major categories of mail. Is this still the case; and if so, when will the*

Service have targets in place for all of its major categories of mail?

3. The Service's Strategic Plan stated that the Service needs better indicators to measure Standard A and Periodicals Mail to satisfy its customers.

a) What is the Service doing about this?

The USPS Information Platform program links systems together to create the capability for the timely electronic exchange of information between customers and the Postal Service. Two of the targeted business capabilities of the Information Platform are to create a window around the mail by providing real-time mailing information to customers, and to make it easier for customers to do business with the Postal Service.

One of the cornerstone initiatives of the Information Platform program is the CONFIRM project. CONFIRM enables mailers to track letters and flats by applying Planet Codes (additional barcodes) on their mail. The code is scanned automatically at each machine-handling. Web-based access permits customers to easily track their mail through the system.

CONFIRM has been in a test phase during the last year, and mailers have been participating. During FY 2001, the program will continue to expand, reaching virtually all automated facilities and providing national coverage for most mailings.

For letters, all barcode sorters in plants have been enabled to read Planet Codes--and all barcode sorters in delivery units are being upgraded to read the codes with a completion target date of the end of this calendar year. For flats, the USPS plans to have all flat sorters Planet Code-enabled by the end of the calendar year as well. The server capacity for storing Planet Code data is being upgraded to accommodate additional customers.

CONFIRM is automatic, flexible, and cost-effective. The Postal Service has been working very closely with the Mailer's Technical Advisory Council (MTAC) in order to make it as useful as possible for mailers. The USPS and mailers are addressing a final issue of linking the acceptance data – the date the mail was entered into the system – with the operating data.

CONFIRM establishes the availability of a piece for delivery at the delivery unit. For final delivery confirmation, the Planet Code used in CONFIRM can be read by the delivery confirmation devices used by postal letter carriers for packages. This provides the final link in what will be an end-to-end tracking capability.

4. The Service is required to annually report to Congress on its plans and performance related to its major goals. This information is vital to

congressional oversight. However, concerns have been raised about the integrity of some of the data used to measure performance.

a) *What is the Service doing to help ensure the integrity of performance data?*

A vast array of data and resources is available to ensure the integrity of data used to measure success in meeting the various performance goals of the Postal Service. Many of the data systems utilized, especially in the area of finance, have a series of internal controls imbedded within their procedures to safeguard the integrity of the results. A description of the specific systems and processes used for measuring, verifying, and validating data related to the 2001 performance goals is provided in Appendix D of the 2001 Annual Performance Plan.

The General Accounting Office, the Office of Inspector General, and a certified public accounting firm appointed by the Postal Service Board of Governors conduct independent ongoing reviews and audits of Postal Service data and render periodic reports on their findings and recommendations. Additional information on the activities of these groups that relate to verification and validation of Postal Service performance measurement systems and data is also provided in Appendix D of the 2001 Annual Performance Plan.

5. In its Report "Postal Activities and Laws Related to Electronic Commerce" and in its testimony "Electronic Commerce Activities and Legal Matters, the GAO identified three problem areas and make recommendations for improvement.

a) *How is the Service addressing the problem of inconsistencies in identifying e-commerce and related initiatives and in reporting the status of these activities?*

The Postal Service developed and is applying the following definitions as a framework for identifying eCommerce and related initiatives:

eBusiness:
eBusiness Initiatives will provide benefits through Internet technology to customers and the Postal Service in terms of either customer satisfaction, cost reduction, revenue generation, and/or employee satisfaction. These initiatives are categorized as eCommerce, eService, ePeople, and Infrastructure. eCommerce initiatives are new internet based products and services for consumers, businesses and government entities that generate revenue to the Postal Service through user charges of license fees. eService initiatives will enhance features, access, and information about core products and services. ePeople efforts will keep employees better informed, provide a full range of "self service," reduce administrative tasks,

and increase access to development opportunities. All will be supported by an infrastructure that links our core production processes, parallels the hard copy flow of messages, merchandise and money, increases the convenience of retail transactions currently done at a post office and allows for new electronic products, services and choices to be offered to our customers.

eCommerce:
The following list of electronic commerce initiatives are those that are specific to US Postal Service eCommerce. We currently define them as those services or products which require the Internet to do business and which generate revenue to the Postal Service through user charges or licensing fees.

In contrast, we do not include initiatives such as IBIP, Portal Alliances, Shipping Online, and Internet Customer Care, because they do not generate revenue to the Postal Service through user charges or licensing fees over the Internet. IBIP and Shipping Online help generate postage revenue and Portal Alliances provide access to other U.S. Postal Service products and services.

We consider our web presence through "front-end" or "back-end" Internet access to our core and existing USPS services or products to be value-added services that are offered as part of our mandate to provide modern and expeditious methods to help our customers communicate easier, better, and faster. These do not fall within the Postal Service's definition of "electronic commerce initiatives." The resources for these functions are reported with other core or existing US Postal Services.

Current List of eCommerce Initiatives:

1. **ePayments**
2. **NetPost Mailing Online**
3. **Internet Change of Address and Move Related Products and Services**
4. **NetPost.Certified**
5. **PosteCS**
6. **Stamps Online/Virtual Store**
7. **Electronic Postmark (EPM)**

Regarding the status of initiatives, we have increased the frequency of our status reports on the eCommerce initiatives to more accurately reflect the status at any given time.

b) *How is the Service addressing the problem of inconsistencies in following the required process for reviewing and approving e-commerce initiatives?*

Even before the GAO study started, we had recognized that our existing process for senior management review and approval of new products and services was not well-suited to e-commerce initiatives that necessarily require faster development and implementation. The nature of eCommerce activities demand quick-to-market and partnering strategies that require a faster and more flexible process than our existing new products process allowed. In February, 2000 we set up an e-Business Opportunity Board (eBOB) which is chaired by the Deputy Postmaster General and is comprised of our Chief Financial Officer, Chief Technology Officer, General Counsel and other senior officers, to provide the essential senior-level oversight and decision-making for proposed e-commerce initiatives. The new eBusiness Opportunity board development process provides for a structure that is flexible and fast and serves as a guideline for eCommerce activities. All activities will not require the full approval and review process. However, we realize exceptions from the guideline need to be documented so that it is clear that the activity has met criteria and has been approved by the eBOB. The process we set up a few months ago is working. Projects are being carefully evaluated, resources controlled, measures of success defined, and ongoing performance evaluations are being conducted.

c) *How is the Service addressing the problem of deficiencies in the financial information for e-commerce activities?*

The Postal Service has structured a process to collect and report the eCommerce revenues and expenses of eCommerce initiatives. The data is reviewed, validated, and consolidated by Corporate Accounting. The Postal Service has also initiated a study this fiscal year to determine the extent to which costs such as those for infrastructure and developmental efforts are attributable to eCommerce products.

6. There are questions regarding the appropriate start-up period for new products and services offered by the Postal Service. Unlike the private sector where investor capital is used to support the development of new products, the Service is essentially investing funds from mailers to support its startup ventures. This raises fundamental concerns of fairness and concerns for cost recovery in the event that new products fail to cover their start up costs.

a) *How does the Service respond to such concerns?*

Part of the ongoing responsibility and the cost of doing business for every large service organization is the requirement to invest in Research and Development to modernize operations and service offerings. The Postal Service has always had R&D programs and expense. We view our eCommerce efforts as consistent with this history.

In addition, we have actively sought to engage with partners from the private sector to share the costs of developing and starting new products and services.

b) *In the event that e-commerce products individually or collectively fail to cover their costs, what customers should be charged for the recover of those costs given the Service's mandate to breakeven? Are these customers given any opportunity to review or approve of the Service's new product proposals? How do you respond to charges that the Service is taking advantage of its monopoly to fund risky new products?*

Part 1: The Postal Service develops new services with the object of providing service, covering costs, and making a contribution to the overhead of the Postal Service. While some particular offerings may not succeed, we expect that eCommerce initiatives as a whole will make a positive contribution. If a service is unsuccessful it will be terminated. Any losses from an abandoned service would not be charged to particular services. Both profits and losses from individual services contribute to the overall financial performance of the Postal Service, which in the aggregate influences the needs of the Postal Service for additional revenues or cost reductions.

Part 2: The Postal Service relies upon market research and the input or feedback from customers on a continual basis regarding its new products and services from the idea generation stage through pilot and through its lifecycle. The Postal Service conducts focus groups, promotes awareness at trade shows and through informal discussions with customers on new products and services in an effort to gain insight into customer needs. It is with this information and research that we embark upon development of new products and services.

The Postal Service is a public institution which is always interested in hearing and taking into account the views of its customers. The Governors of the Postal Service are appointed by the President to represent the public interest. They bring an outside perspective and sensitivity to public concerns to the review of new service proposals. Also, for those eCommerce services that involve the mails, such as Netpost Mailing

Online, the usual rate and classification proceedings before the Postal Rate Commission are followed, including the participation of interested parties.

Part 3: We disagree. The Postal Service has established an evaluation and review process which assures that eCommerce initiatives are carefully considered before they are introduced and that their performance is monitored afterwards. Furthermore, we do not think that the limited postal monopoly for letter mail has anything to do with these eCommerce

services. In recommending postage rates, the Postal Rate Commission explicitly considers the monopoly and the availability of alternative means of sending and receiving mail, in order to assess the reasonableness of rate relationships and levels of contribution to institutional costs by the various mail classes. This evaluation ensures that rates for the monopoly classes of mail are established that do not enable the Postal Service to take unfair advantage of its status under the Private Express Statutes.

c) *How do you respond to Commissioner Gleiman's suggestion that the issue of whether the Service should offer e-commerce products is a public policy question that should be decided by Congress? Do you believe that if the Service were not offering e-commerce products that Congress would have mandated that it do?*

Part 1: The Postal Service's mission is to bind the nation together through the correspondence of its people. Traditionally, the nation has relied upon hard copy paper as the medium with which to correspond. As technology and the Internet become more widely used by our customers for personal, literary and business correspondence, we must respond by providing enabling services that benefit all business and the nation at large, just as we've always done. We will do so by providing universal access and secure, trusted protected e-commerce support services that are today lacking on the Internet. eCommerce solutions give customers the power to make choices. The Postal Service believes that it can benefit consumers and businesses in this new medium for communicating by protecting their privacy, while providing the same level of trust and security they have come to expect from us.

Part 2: We believe that the Postal Service is following the directions that Congress has already provided in the Postal Reorganization Act.

In approving the bill that became the Postal Reorganization Act, the House Committee on Post Office and Civil Service stated that: The Postal Service is empowered to engage in research and development programs directed toward the expansion of present postal service and the development of new services responsive to the evolving needs of the United States.
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[The bill] envisions a national postal service that is forever searching for new markets and new ways by which the communication needs of the American people may be served.

H.Rep. 91-1104, 91st Cong., 2nd Sess. 9, 20 (1970).

To continue to serve the public as intended under current law, the Postal Service must take prudent steps to innovate and to modernize its services for the American people.

While going forward with our responsibilities under the law as now written, the Postal Service has also supported legislative efforts to develop a balanced, comprehensive modernization of the postal statutes that will provide the American people a solid foundation for a 21st Century postal system.

d) *Some stakeholders contend that the Postal Service should refrain from entering e-commerce markets currently being served by the private sector and limit its activities to traditional postal services. How would you respond to these concerns?*

Postal services have always competed to some extent with private alternatives, although there are significant differences between the public service character and universal service orientation of the postal system and the profit maximizing focus of private firms. Today, all of our services face increasing competitive alternatives, and a large segment of First-Class Mail seems susceptible to the risk of electronic substitutes.

As part of our efforts to modernize operations and services and to continue meeting our universal service mandate, we are leveraging the Internet to make it easier for our customers to do business with us and to afford more choices. This includes enhancing our web site to allow our customers to buy our products and services online, provide access to postal information and build one-to-one customer relationships. Some examples are: relevant local post office information, directions with mapping, buying stamps online, paying for shipping online, paying bills, providing electronic document delivery, etc. We also are creating hybrid services that will enable our customers to create a document electronically that we will deliver as hardcopy.

Additionally, we are going to link our national address database to an electronic mailbox that will allow every American to register for free and to receive mail securely. We will also work with government agencies and others interested in using our USPS Electronic Postmark™ and Certificate Authority/PKI.

We see all of this as a logical extension of what the Postal Service has been doing for years. The Internet makes it easier and cheaper to do some aspects faster and better.

e) *Many skeptics don't believe, as the Service contends, that its customers and th American people are demanding that it offer e-commerce products. Please provide all the empirical evidence including quantitative market research results that indicates that this is the case. In your response please provide separate*

support for each of the e-commerce products offered or planned to be offered by the service.

Neither the Postal Service nor its competitors publicly release research studies and results that would enable others to take competitive advantage. In the Postal Reorganization Act, the Congress recognized the public interest in maintaining the proprietary nature of Postal Service information that should not be publicly released under good business practice. The Postal Service has conducted research for a number of initiatives including Electronic Commerce Services (ECS) and Electronic Postmark™ (EPM), Mailing Online, and Netpost. The research noted has been conducted with market segments and customer groups by reputable research organizations. Customer preference, market demands, customer needs and feasibility studies yielded as a result of the research efforts have provided support for moving forward in development of these products or services and validating the initiatives meet the criteria established. The Postal Service has made such information available to the Congress through the General Accounting Office reviews of its current initiatives.

f) *Some stakeholders are concerned that the Postal Service will not be successful in offering e-commerce products and services in an extremely competitive marketplace. What makes the Postal Service confident that it will be successful in this dynamic area?*

The Postal Service is focusing on only those opportunities which best fit its own unique capabilities and mission on behalf of the public. As we explore possible eCommerce opportunities, we plan to take full advantage of the best technology, current or emerging, in the marketplace. We will not discount any business alliance that brings to the marketplace a technological solution that best serves the American public. The Postal Service has a historic reputation for protecting privacy, providing security and a superior level of trust consistently in carrying out its mission. We are confident these attributes combined with quality products and services will enable the Postal Service's success in the eCommerce arena.

g) *What goals has the Postal Service established for the e-commerce area for this fiscal year?*

Within the context of the Postal Service's eBusiness Goal, the broader eCommerce goal is as follows:

Use the internet channel to offer new and enhanced products and services that provide the U.S. Postal Service with revenue such as license fees and user charges.

Specifically, for FY 2001, our eCommerce Goals are:

- **Generate $104 million in revenue from eCommerce products**
- **Increase customer traffic to our web channel usps.com**
- **Improve customer overall satisfaction with our channel and service offerings**
- **Explore new opportunities to generate revenue or enhance existing products and service**

7. The Service has experienced its first money-losing performance since 1994. You testified that the Service would probably loose in the neighborhood of $100 to $200 million in fiscal year 2000. You attribute that loose to unexpected cost increases and a shortfall in projected First-Class mail revenues. You were quoted as saying that the decline in First-Class mail growth was not a result of diversion to other forms of communications, such as the Internet or e-mail. The unexpected cost increases are said to be for workers' compensation costs, increased gasoline costs, the award to letter carriers through arbitration, and cost of living adjustments.

a) *Now that the year has ended what was the final net income in FY2000?*

The net loss for our fiscal year ending September 30, 2000 was $199m.

b) *What does the financial picture look like for the current fiscal year? Does the Service expect a surplus or a deficit?*

The FY2001 operating plan recently approved by the Board of Governors reflects a projected loss of $480 million. However, that loss assumed that the Postal Rate Commission (PRC) would approve new postage rates as requested by the Postal Service. The PRC recommended rates are estimated to produce an overall rate increase of 4.6 percent compared to the 6.4 percent requested by the Postal Service. The rates recommended by the PRC are estimated to result in a net loss of $1.2 to $1.4 billion in FY2001. The Board has requested that the PRC reconsider its recommended rate decision.

c) *To what extent was the revenue shortfall in the plan associated with loss of volume do to electronic diversion beyond that which was included in the forecast? If it's true, as the PMG indicated, that electronic diversion was not the cause of the unexpected decline in the growth of First-Class revenue does this indicate that the overall demand for First-Class letters and cards has declined in general?*

We have not been experiencing a net loss in First-Class Mail volume to electronic diversion to date. First-Class Mail volume grew at 1.4% in PFY 2000, compared to adult U.S. population growth of 0.9%. Through PFY 2000, First-Class Mail is growing at a rate similar to that of the last five years, indicating that we are not experiencing a significant weakening in the overall demand for First-Class Mail yet. The plan called for more ambitious First-

Class Mail than, in retrospect, was justified. Historically, competing electronic technologies (e.g. email, fax, ED, and EFT) have cost the Postal Service volume. Technology and demographic trends have also contributed to growth.

d) *What other factors does the Service believe may have contributed to the revenue shortfall? (For example, a decline in revenue per piece, price response to January 1999 rate increases, decline in First-Class advertising component, etc.)*

Within First-Class, single piece mail fell. This accounted for over a half billion dollars of the revenue shortfall. A number of factors seemed to influence this. There was weakness over most major business segments, including the financial services sector and publishing. Financial services consolidation, changing business practices, and electronic bill payment may all have contributed to the shortfall.

Periodicals finished 1.3% below plan reflecting the delayed impact on their business of reduced sweepstakes marketing.

Standard A growth was negatively affected by advertisers reorienting their marketing strategies and, at the beginning of the year, by sweepstakes scandals. Nevertheless it finished the last three quarters at or above GDP growth and ended the year just 0.9% below plan.

Parcel post revenues were 5.3% below plan principally reflecting the lower yield from drop-shipped parcels while retail parcels dropped substantially.

e) *Is there any evidence that the First-Class volume considered at risk from electronic diversion has already begun to decline?*

We have seen a very slow and gradual weakening of First-Class Mail volume over the last decade as electronic alternatives have proliferated. We have no current indication that this softening of growth will shift to volume declines in the near future.

f) *Does the Service have any new or ongoing surveys of mail users, such as the Non-Household and Household Mailstream studies, to monitor trends in mail usage? If so, please provide the latest copies of the survey results to the Subcommittee and provide a summary of the results for the record as it relates to changes in mail usage due to electronic diversion.*

The 1999 Household Diary Study report will be completed shortly. A copy will be supplied to the subcommittee when it is published.

g) *Some stakeholders are skeptical that mail volumes will decline as the Postal Service's baseline forecasts suggest. Why has the Service adopted this scenario for planning purposes in its Strategic Plan?*

The traditional mail volume forecast is based on a very close long-term relationship between the growth of the U.S. economy and mail volume. In this model, the main "drivers" of the forecast are the growth of population and increases in income. The model also includes a price factor for postal and competitive services.

However significant shifts in technology and in producer and consumer behavior raise concerns about the degree of reliability associated with certain elements of the current forecasting. That is, the availability of new web-based substitutes for traditional mail applications may change the relationship between economic growth and mail volume. These substitutes include Electronic Bill Payment and Presentment, Electronic Mail, and other forms of e-Commerce. Technological substitution may impact First-Class, Priority, and perhaps even Standard A Mail.

Currently almost half the households in the United States have access devices, typically personal computers, and have access to the Internet. This penetration has been rapid, and is expected to continue. For some attractive segments, such as the higher income levels, penetration and use of online services has already reached nearly 90%. These are the households that send and receive the most messages, including mail. Mail volume is increasingly vulnerable to the intensive marketing efforts of the technology providers, and the Internet-based systems are aggressively tackling current barriers of consumer confidence, convenience and cost.

The Postal Service, along with many others, has studied the issue in some detail, using a variety of methods and sources. Some of them were summarized in an appendix to the Strategic Plan that includes work done during the H.R. 22 discussions. After a review of all these data, the Postal Service concluded that it would be prudent to develop strategies to respond to the possibility that mail volume might decline. However, the strategies being implemented by the Postal Service will be relevant and beneficial even if the prediction of volume decline is wrong, as such predictions have been in the past.

h) *Do you believe that the Service is headed for a financial shortfall that could hinder the Service's ability to provide affordable universal service? If so, what does the Service plan to do about it?*

The strategies outlined in the Five Year Strategic Plan of the Postal Service focus primarily on the issue of affordability. It assumes the current interpretations of universal service will not change during the planning

period. The "Breakthrough Productivity Initiative" described in the Plan, along with modest improvements in revenue generation and specific cost reductions, is expected to meet the financial requirements during the next five years.

However, if mail volume declines sooner or at faster rates than currently assumed, the Postal Service will need additional strategies. These strategies include options that could significantly impact current definitions of universal service. As a result, the Postal Service will examine these options much more closely during the planning period, developing data and specific contingency plans to support informed policy discussions.

i) *One strategy of the Service is to enhance its revenues. Some are skeptical that the Postal Service will be able to raise enough net revenue from its new products to make a substantial contribution to cover institutional costs. How do you respond to this concern and how much do you expect to make from new products?*

Over the last two centuries, the Postal Service has grown with the country. The overall relationship of total mail volume to economic growth has been consistently strong. However, the steady growth of mail volume masks incredible dynamism and change within the mix of mail applications. While personal correspondence has declined to a relatively small percentage of mail volume, business communications has flourished. While 1-800 numbers and fax orders have replaced "mail order," the volume of direct mail and catalogs has grown tremendously.

Most of these changes occur so gradually that they have not necessarily been recognized as "new products". Furthermore, worksharing concepts such as pre-sort or drop-ship are not usually recognized as "new products." However, it is clear that mail volume, and the postal system, would be much different today if it were not for these "unrecognized" innovations. The revenue from the volume created by these changes has enabled the Postal Service to continue to support and upgrade its infrastructure.

It is inevitable that creative private sector entrepreneurs will develop new ways to use the mail, and perhaps even new applications for the mail. However, such developments are unpredictable. Furthermore, given the expected pace of technological substitution of postal products, the Postal Service cannot rely solely on mailers to provide sufficient new uses and generate sufficient new revenues to support the cost of maintaining the growing infrastructure needed to provide universal delivery services.

The success of such efforts is not assured. In fact, many new products and ventures introduced each year in the private sector fail. As a unique public organization, the Postal Service must be especially careful about the products and services it introduces, and these must pass more critical public review than those of most other providers. In addition, given the current requirement to "break even," it is difficult to finance a broad spectrum of new products and services that are unrelated to its core mission. It is even difficult for the Postal Service to "partner" with others to gain new competencies, unless such skills are necessary for the Postal Service to continue to provide prompt, reliable services to all communities.

These are among the limitations that necessitate postal management requests for greater flexibility to design, price and introduce new products and services. The Postal Service must balance the need for market responsiveness with prudence and public accountability.

At this time, there is no specific "target" for new net revenue from new products and services. There is, however, a strategic recognition that there may be a gap between what the Postal Service can accomplish through "Breakthrough Productivity Initiatives" or targeted cost reductions and what it needs to continue to support the universal service infrastructure. It is also recognized that generation of new revenue may be a preferable public policy option to significant changes in what the public expects from the Postal Service.

j) *Please provide for the record the planned and actual totals for the major cost categories including the three items cited above.*

Final financial results for FY 2000 will not be available until the annual audit is complete. All amounts given here are preliminary and subject to adjustment. Preliminary (unaudited) totals for major expense categories are as follows:

	2000 Plan	2000 Estimate	Variance	% Variance
Personnel	49,658	49,532	(126)	(0.3)
Nonpersonnel	9,239	8,751	(488)	(5.3)
Transporation	4,589	4,709	120	2.6
Interest	1,838	1,788	(50)	(2.7)

For FY 2000, we budgeted $731 million for workers' compensation expenses for US Postal Service employees. Our preliminary (unaudited) actual expense for the year was $909 million.

We do not budget separately for fuel costs; these costs are included in the overall transportation budget. We also pay indirectly for fuel cost increases incurred by contract carriers and passed on to us. Many of these passthroughs take place several months in arrears, so it takes some time before the full impact of fuel price increases is felt. In FY 2001, even if fuel prices do not increase further, we expect additional budget pressures from fuel costs. A reasonable rule of thumb for estimating the impact of higher fuel prices on the Postal Service is that each one-cent increase in fuel prices results in about $5.6 million in annual cost increases, based on a usage of over 500 million gallons of fuel. With the average fuel increase exceeding 40 per cent for FY 2000, this works out to $275 million.

Likewise, we do not separately budget for cost-of-living-adjustments (COLA); however, our budget does include explicit assumptions regarding COLA , from which we can impute the budget and associated variances. In September 1999, the majority of our bargaining employees received COLA of $0.16/hour, which was $0.01/hour higher than we had assumed in our FY 2000 budget. In March 2000, these employees received a COLA of $0.17/hour, which was $0.06/hour more than we had budgeted. The higher COLA accounted for $58 million of unplanned salaries and benefits expenses. Without the impact of this uncontrollable cost, the Postal Service's total expenses would have been $58 million lower.

k) *What were the factors that caused worker compensation cost to increase beyond projections? For example, did the rate of accidents increase, the duration of time employees were receiving compensation increase, do you suspect an increase in false claims, etc?*

Higher than anticipated workers' compensation expenses were primarily attributable to a speed up in claims processing by the Department of Labor (DOL). Secondary factors were 1) large increases – almost 14% - in average cost per medical claim, and 2) increases in non-traumatic "occupational" injuries reported to the DOL. We believe that the increase in reported occupational injuries may be the result of the OSHA proposal to promulgate regulations in regard to ergonomic standards.

l) *What measures has the Service taken to control future workers compensation cost increases?*

The Postal Service continues to emphasize accident prevention activities. For FY 2001, our national and area targets are to improve our total OSHA Injury/Illness Case Rate by 3% over FY 2000. Achieving the OSHA Injury/Illness Case Rate reduction is a component of our variable pay program

m) *What measures has the Service taken to mitigate the impact of future gasoline cost increases? For example, guaranteed price contracts, alternative fuels, migrate mail to alternative forms of transportation such as rail, etc.*

The Postal Service purchases, directly or indirectly, 560 million gallons of fuel per year; 365 million gallons of this amount is diesel fuel, 165 million gallons is aviation fuel and 30 million gallons is gasoline. Annually, highway contract route suppliers account for more than 293 million (including extra trips and Christmas operations) and this represents an annualized cost of $416 million (every one-cent per gallon price reduction of contract diesel fuel saves the Postal Service $2.9 million). Therefore, we are constantly monitoring fuel costs, and continually looking for ways to reduce them.

As a recent example of these efforts, during 1998 and 1999, we conducted a pilot fuel management program that focused on combining fuel requirements. The results were positive, and in 1998 we entered a partnering arrangement with one of our larger transportation contractors in Dallas. As a result, from November 1998 through early September 1999, more than 14 million gallons of diesel fuel have been purchased, with savings and cost avoidance in excess of $1.5 million. A similar pilot for aviation fuel began last summer in California, and it has shown promising results with savings that will exceed $1.5 million per year.

The Postal Service has also begun to consolidate retail gasoline purchases through the use of a purchase card system. This will reduce the cost of retail purchases and will provide us the data necessary to negotiate more savings with major suppliers, although the majority of these purchases will continue to be made under contracts established by the Defense Logistics Agency's Defense Energy Support Center.

We do contract with railroads to haul mail when it is the best business choice for ourselves and our customers, based on service standards and cost. Generally, the Postal Service ships about 150,000 trailer loads of mail by rail every year, at an approximate cost of $150 million. And, over the past several years, we have purchased almost 30,000 vehicles which run on either natural gas or a mixture of gasoline and ethanol.

n) *Why did the Service underestimate the cost of living adjustments? Did the Service rely on a figure that underestimated inflation or did the Service underestimate the pool of costs that would be adjusted for cost of living. Please provide figures to support your response.*

The Postal Service underestimated inflation.

The Postal Service uses CPI-W forecasts provided by Standard and Poor's DRI. Cost of living adjustments in the Postal Service are triggered by Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) numbers for January and July. In January 2000, the DRI forecast for CPI-W was 498.3 for July 2000 and 502.2 for January 2001. By May 2000 the estimates had risen to 504.1 for July 2000 and 508.2 for January 2001. The July CPI-W triggers a COLA payment in September. The January 2000 estimate of that COLA was 13 cents per hour. The actual COLA payment was 29 cents per hour. DRI was not alone in its failure to anticipate the rapid increase in energy prices that drove the CPI-W increase.

o) *Please provide for the record the FY 2000 planned and actual totals revenues for the major classes of mail*

Postal Service FY 2000 Revenue by Major Classes of Mail

Mail Class	Prelim. Actual	Plan	Variance	%
First-Class	35,516	36,031	(515)	-1.4%
Priority	4,837	4,816	21	0.4%
Express	996	990	7	0.7%
Periodicals	2,171	2,199	(29)	-1.3%
Standard Mail (A)	15,193	15,325	(132)	-0.9%
Standard Mail (B)	1,913	1,959	(46)	-2.4%
International	1,658	1,677	(19)	-1.2%

(Millions of dollars)

p) *As discussed in the hearing, please provide an estimate of the revenue lost as a result of the reported 18 percent drop in American Banker Association member spending on First-Class mail.*

It is extremely difficult to estimate the revenue impact on the Postal Service of a reduced volume of bank mailings. In addition to determining the classes that the "lost" pieces traveled as, one must take into account the level of crossover of the remaining pieces (i.e., shifting mailings out of First-Class into Standard (A), where possible).

8. It is rumored that the Service will need to file another omnibus rate case in the near future in order to maintain financial breakeven in FY2003.

a) *Assuming the Service were granted the rate increases as it proposed in Docket No. R2000-1 and such rates were implemented in early January of 2001, and recognizing the Board's Resolution No. 95-5, when does the Service anticipate it will need to file for another omnibus rate increase?*

At this stage, even with the assumptions posited here, it is not possible to predict when the Service will need to file another omnibus rate case. The timing of the next case is an important policy determination to be made by the Board of Governors upon considering a complex range of factors, including the general economy, inflation, mail volume projections, labor negotiations, and financial and operational policies. Please be assured that we understand the negative consequences of rate increases, and will do everything reasonably possible to delay filing another omnibus rate case.

b) *If the service fails to achieve its breakthrough productivity targets, will the Service need rate increases above the rate of inflation in the next rate case in order to break even?*

Failing to achieve our productivity targets would, of course, have upward pressure on rates and therefore make it more difficult to keep rate increases below inflation. It is not possible at this stage, however, to predict the level of future inflation, or determine what increase would be necessary if the productivity targets are not fully met.

9. On January 12, 2000 the Governors filed a Request for Recommended Decision for Changes in Rate of Postage and Fees with the Postal Rate Commission. The overall average rate increase proposed was 6.4 percent.

a) *Assuming the Postal Rate Commission takes the maximum 10 months allowed to issue its Opinion and Recommended Decision and the Governors accept the recommended rates, when does the Service anticipate that new rates will be implemented?*

The Board of Governors will determine when approved changes will become effective, based on information available at the time of the Governors' decision on the Recommended Decision. With that in mind, it is worth noting that the Postal Service has previously taken the position that the proposed rates would be implemented January 7, 2001.

b) *Based on the latest Consumer Prices Index, what has been the rate of inflation for the period since rates were last changed in January 1999?*

R2000-1 rates, as proposed by the Postal Service, would increase prices by 6.5%. At the time the case was filed, the Consumer Prices Index was projected to increase by 4.8%. Currently, it is projected to increase by 6.1%. The table below provides some historical context. Please note that R97-1 was implemented in January,1999 rather than the summer of 1998 and the rate increase was 2.8% rather than 4.5% as originally proposed.

Rate Cases	Time Period Between Rate Increases	Cumulative Inflation	Cumulative Rate Increases
R2000-1	Jan-99 Jan-01	6.1%	6.5%
R97 & R2000-1	Jan-95 Jan-01	16.0%	9.5%
R94-1, R97-1 & R2000-1	Feb-91 Jan-01	29.3%	20.9%
R90-1, R94-1, R97-1 & R2000-1	Apr-88 Jan-01	48.9%	42.6%

10. Last year, the Service indicated that it intends to meet its management challenges by improving on every facet of its performance. At the same time the Service indicated that legislative reform is still needed to give it more effective tools and more flexibility to adapt to change and thrive.

a) *If reform does not become a reality and the Service is denied such tools and more flexibility how will the Service adjust its business strategy?*

b) *Will the Service pursue a policy of downsizing in response to slowing demand for its traditional products and services?*

It is clear that the discussions generated by the postal reform hearings over the last several years are only a first step in developing public policy on this issue. Over the next few years, the Postal Service will develop more details on the issues facing the organization, the mailing industry, postal customers, the American public, and the postal policy community. We believe that progress will be made as the trends become clearer and the alternatives to the current structure become more defined.

In the meantime, however, the Postal Service will undertake a complete review of the opportunities for increasing internal flexibility and responsiveness. Not all the barriers to change are external.

One of the changes the Postal Service will address is the organizational culture. Postal managers and employees must become much more entrepreneurial, innovative, customer-focused, and results oriented. The Postal Service will adjust its selection, development, accountability and incentive systems accordingly.

Another change will improve administrative systems and processes, reducing the time and effort required to complete purchasing, personnel and other actions.

The "Breakthrough Productivity Initiative" is focused on doing what we have always done better than we have every done it before. The Postal Service will also examine ways of doing things differently that will yield better results. In some cases, this will involve outsourcing and downsizing.

If these strategies are not sufficient, another option, of course, will be to continue to raise rates sufficient to cover costs. This would worsen the competitive position of the Postal Service and cause substantial disruption to key customer segments with no or minimal direct substitutes for postal services, such as the publishing industry.

The final alternative would be to redefine public service and to begin to reduce traditional ways of providing service. Such a strategy would likely have to include downsizing.

11. After the QIII financial results were released, the Service indicated that in the final quarter of FY2000 it would take aggressive measures to mitigate inflation, manage costs and operate at high productivity levels.

a) *Please discuss these aggressive measures. How they were implemented in the field? What was the net financial impact that such measures had during Quarter IV?*

The Postal Service aggressively managed its costs throughout FY 2000. In the fourth quarter, we stepped-up those measures in an attempt to offset continued revenue weakness. Once the final audited numbers are available, we expect total expenses for the year to be approximately $550 million under plan. This impressive turnaround can be attributed to the efforts of our managers and employees in the field and at headquarters, who answered the challenge. The field was challenged to reduce costs in response to the lower-than-planned workload and they did – achieving their workload-adjusted plans without adversely impacting service. Headquarters was challenged to curtail, reduce or defer program and administrative spending to the greatest extent possible – HQ administrative and program spending ended the year more than $350 million under plan.

b) *Where did these measures fall short of their expected results?*

See response to 11-a. Although we were unable to achieve our net income plan for FY2000, the measures taken offset a substantial portion of our cost increases and revenue shortfalls.

12. Please provide an overview of the Service's efforts to manage growth in the workforce through attrition. Has the Postal Service initiated a hiring freeze at any organizational level? Does the Service intend to offer early retirements? If so, are there any plans to offer early retirement with an incentive bonus?

a) *Is the Service planning any downsizing or major restructuring of headquarters or headquarters units? If so, please discuss the timing and extent of such downsizing or restructuring and how it will be achieved.*

The Postal Service, as part of its Breakthrough Productivity Initiative, is reviewing its administrative activities with a goal of finding efficiencies and eliminating duplication. The review includes transactional-based internal systems and includes the use of electronic signature and Shared Services concepts.

The review includes all levels of the organization, but concentrates upon Headquarters, Headquarters Field Units and the Area Offices for FY2001. The goal is to reduce expenses by $60-100M for these units. The savings will be captured by absorbing vacancies, budget reductions, and where necessary offering Voluntary Early Retirements for those units impacted by the change. If necessary, Reductions in Force may be necessary to achieve the targets.

b) *Please discuss the nature and extent of the budget cuts associated with the Postal Service's recent cost reduction program, which is described as the "Management Challenge."*

Strictly speaking, the phrase "management challenge" referred to expense reductions which we implemented in FY 1999. As you know, we also implemented unplanned cost reductions in FY 2000. These are described in the response to question 11a.

c) *What programs were scaled back or delayed in response to the management challenge to remove another $400 million in FY2000 as reported last year?*

In response to FY 2000's revenue shortfall, we left broad discretion to our managers to reduce or defer costs wherever possible. Among programs that finished the year substantially below their original expense plans, were Point of Service One and Mail Transport Equipment Service Centers. These programs alone were responsible for over $38 million in savings. Over 350 programs finished FY 2000 below their initial plans, each contributing to our financial success in FY 2000. Achievement of these significant cost reductions in FY 2000 was truly a Postal Service-wide effort.

The Management Challenge resulted in 360 positions being eliminated in Headquarters in FY2000. Additional programs and budget reductions were identified in Headquarters for that year. In FY01 the additional 40 positions were identified for elimination along with an additional 608 positions in Headquarters and 120 in the Area Offices.

d) *You have stated that the Service needs to reduce costs by $4 billion over the next 5 years. However, the Service reported to the PRC that it expects to achieve only about $740 million in savings in fiscal year 2001. Do you believe*

that the $4 billion is achievable? If so, how do you plan to get there?

Yes, we do. Our Breakthrough Productivity (BPI) effort began in FY 2000, and it is on-going five-year effort. During FY 2000, we began benchmarking, gathering best practices, and rolling out training and communications efforts with operational and functional managers to ensure that the BPI effort was understood and had organizational buy-in. In FY 2000, we saw an immediate return. Productivity rose 2%, a gain ten times the average annual improvement over the past ten years. Based on this performance, the Postal Service absorbed more than $1 billion in costs in FY 2000. Service performance remained at record levels, as well.

Our BPI initiatives are a series of cross functional, interlocking efforts. Besides an operational focus on mail processing and delivery, it also includes focus on purchasing, transportation, and administrative activities. We also expect the initiatives to build one upon the other as we move deeper into the program. In FY 2001, we budgeted $1.2 million in savings: $750 million in cost reductions resulting from pure productivity gains and $470 million associated with capital equipment.

Our efforts to reduce overhead costs are ongoing and include complement reduction and deploying information technology to eliminate and streamline administrative work processes. From a transportation standpoint, we are currently exploring more cost effective ground and air transportation strategies to significantly reduce costs without adversely impacting service. Streamlined and standardized transportation methods will save tens of millions of annually. Already purchasing initiatives are reducing costs. We are already taking advantage of our scope to negotiate system-wide cost saving contracts. In addition we are using, where appropriate, reverse auctions via the internet to broaden our purchasing reach to reduce costs.

13. A number of models of tires manufactured by Bridgestone/Firestone tires have recently been recalled.

a) *Has the Service investigated whether, and to what extent, such tires are currently mounted on PVS vehicles? If so, what is the Service doing to replace these tires?*

None of the vehicles we purchase centrally come with Bridgestone/Firestone tires. However, we do have a number of ordering agreements with tire manufacturers or dealers, including Bridgestone/Firestone, for replacement tires. These agreements have been in place since 1999, and, although we have purchased more than 17,000 Bridgestone/Firestone tires since then, none of those models has been subject to recall.

We have investigated the Bridgestone/Firestone tires on our Postal Service owned vehicles and we do not have any of the model numbers being recalled. We have instructed our facilities to inspect the other model numbers that we have in inventory and on our vehicles to ensure that they are safe. No Vehicle Maintenance Facility has reported any problems and we have had no accidents related to the recalled tires. We have also sent out notices and posted information on our internal vehicle maintenance web page regarding the tires.

b) *Has the Service initiated any efforts to address this problem with its highway route star and rural carriers who utilize their own vehicles?*

We do not purchase tires for our contract carriers. They provide and are responsible for their own equipment, which must meet Department of Transportation standards. We have discussed this matter with the Star Route Association, and they informed us that they believe that the recalls have received enough press coverage to ensure that the Association's members are informed.

14. Improving productivity is one of the major challenges facing the Service. The Postal Service recognizes that it must improve its productivity to control costs and keep rates down. Last year the Service projected that productivity will grow by 2.9 percent in fiscal year 2000, a rate that has only rarely been achieved in the past. The Service planned to reduce labor hours by 1 percent in FY 2000.

a) *How much did total factor productivity grow in fiscal year 2000?*

A preliminary FY 2000 TFP growth estimate of 2.9 percent was developed in July 1999 using projected year-end data for FY 1999. This FY 2000 TFP growth estimate was revised in January 2000, based on actual FY 1999 data. Due to the Postal Service's improved performance from the initial FY 1999 projection, the actual productivity improvement estimated using the FY 2000 net income plan of $100 million was revised to 2.1 percent. Actual TFP growth for FY 2000 is 2.5 percent.

b) *Please explain what factors contributed to the growth in productivity?*

Achievement of a reduction in the use of labor while mail volume and the number of deliveries continued to grow was a major contributing factor. Another factor was our success in keeping the overall use of materials to a net decrease despite substantial increases in air and highway transportation.

c) *Did the Service meet its goal of reducing labor hours by 1 percent in FY2000?*

Preliminary year-end data indicate that labor hours declined 0.7 percent.

d) *Were the savings accomplished by closing 15 Remote Encoding Centers (RECs) and by reducing complement through attrition? What other initiatives were undertaken to reduce labor hours including, for example, curtailing overtime?*

The greatest labor hour reduction was in mail processing where the benefits of automation are realized. The 3.2 percent decline in mail processing labor hours is due, in part, to attrition of approximately 10,000 career and transitional employees. Remote Encoding Center (REC) employees make up approximately 10 percent of the attrition in mail processing. Automation efforts allowed us to reduce manual work hours in mail process by 9.5 percent, or more than 8 million hours. REC hours were reduced by more than 4 million hours.

15. In its *Report of the United States Postal Service Commission On a Safe and Secure Workplace*, The National Center on Addiction and Substance Abuse at Columbia University found that "going postal" is a myth. Postal workers are no more likely to be victims of violence or abuse than any other employees in the national workforce. This is certainly very good news, however, the report also noted that compared to other workers, postal workers have a greater fear of workplace violence and have a more negative attitude towards their managers and co-workers. The report lists ten major recommendations for improving this situation.

a) *Does the Postal Service plan to implement any of these recommendations? Please provide an implementation plan for each recommendation, if available.*

The Postal Service does have plans to implement the recommendations. Patrick Donahoe, the Senior Vice President for Human Resources, is coordinating the Postal Service's action plans for the various recommendations. We cannot provide an action plan for each recommendation at this time, but attached is a matrix showing the functions and other stakeholders that are responsible for implementation of each recommendation.

b) *The report notes that an autocratic management style still persists within the Postal Service. What steps will the Postal Service take to improve this situation?*

The Postal Service is taking a number of steps to improve this situation. All of the Postal Service's leadership development programs (the Associate Supervisor Program, the Career Management Program, and the Advanced Leadership Program) are built upon competencies that include the ability to communicate and work in a collaborative and positive way. Through these

programs and any others that follow, we will build the right skills in our future leaders. In more immediate terms, the Postal Service has included as a compensable indicator for managerial pay under the variable pay program the results from an employee survey on how well supervisors communicate and manage performance. This measure helps to drive accountability for improvement. Further, we are focused on improving the quality and effectiveness of any training or learning efforts for supervisors and managers. In learning programs that are already being implemented, the emphasis is on:

1) interactive learning that requires supervisors and managers to spend most of the course time practicing skills and
2) rigorous follow-up that requires supervisors and managers to use the skills they have learned everyday with on-site coaching to support them.

16. The report notes that the Postal Service grievance process is currently swamped to an extent unmatched in the pubic or private sectors. As of April 2000, more than 126,000 grievances were awaiting arbitration. The report contains the recommendations that management, unions, and management associations overhaul the dispute resolution process, and agree on a system of financial incentives for craft employees.

a) *Does the Postal Service plan to act on these recommendations? Please discuss the process the Service will use to bring the parties together in order to overhaul the dispute resolution process. Please discuss the any financial incentives the Service may be considering to address the grievance problem.*

The Postal Service and its unions must collectively bargain over any change to the dispute resolution procedure. The current grievance/arbitration procedure has been in place for over 20 years and we have taken steps over the past few years to modify those procedures. In response to the mounting backlog of grievances, the Postal Service began addressing solutions with the Federal Mediation and Conciliation Service facilitating the Summit process in late 1996. The Summit process focused the leadership of the Postal Service and its employee organizations on addressing the shortcomings of the grievance appeal procedure and developing solutions.

In 1998, the Postal Service and the NALC negotiated and agreed to test a new, streamlined joint dispute resolution process in 19 districts. Over a period of two years, the test resulted in a significant increase in resolutions at the local level and a dramatic reduction in grievances appealed to arbitration. In addition, the process fostered more professional working relationships between union and management officials in the field. The parties are currently engaged in a nationwide rollout of the new process.

During national negotiations in 1998, both the APWU and the NPMHU agreed to modifications to streamline their respective grievance procedures, providing for greater incentive to respond and resolve disputes at the local level.

We are continuing the Summit process with our Unions and are pursuing further opportunities to improve the effectiveness of our dispute resolution procedures with the APWU and NPMHU during 2000 national contract negotiations.

17. The report notes "Long-standing patterns of distrust and contentiousness mar relations between management and some of the major unions" and that "distrust at the national level undermines local cooperation."

a) *How does the Postal Service respond to this assessment? What plans does the Postal Service have for improving its relationship with organized labor?*

To some extent, we agree with the assessment. It is a systemic problem. Our dispute resolution process is overwhelmed with grievances and therefore, legitimate disputes go unaddressed for long periods of time. A process that does not address disputes expeditiously leads to distrust.

We are addressing this issue by seeking negotiated improvements to modernize and expedite dispute resolution in our grievance procedures. This effort is being supported with a joint contract interpretation resource, Joint Contract Administration Manuals, with each of our craft unions to increase and ensure contract compliance in the field.

Ultimately, it is the responsibility of the unions, as the moving parties, to utilize the grievance process for its intended purpose. Our history, particularly with the APWU, shows that the grievance process has been bogged down with multiple grievances on the same issue that unnecessarily extend the time to address and resolve disputes.

18. It is noted in the report that many grievances in the backlog are parallel issues grieved separately. As an example, it notes that the American Postal Workers Union (APWU) filed 40,000 grievances in a dispute over wash-up time in the New York district. It also noted that the APWU accounts for 80 percent of the grievance backlog, even though their membership accounts for only 49 percent of career craft employees. There is one pending grievance for every three APWU members.

a) *Is the Postal Service working with the APWU and other unions to stop this apparent abuse of the grievance process?*

Since 1994, the Postal Service and the APWU have negotiated several contract provisions with the intent of discouraging the multiple filing of grievances. During the current round of national negotiations, we will continue to explore further opportunities to address the issue of how to efficiently and expeditiously combine, respond to, and resolve grievances. As noted previously, ultimately it is up to the union to avail themselves to these contract provisions, as they are the moving party and they alone determine when and how often to file grievances.

19. The Subcommittee has heard concerns by employees that they will be retaliated against if they report problems to the Inspection Service, the Office of the Inspector General or Congress.

a) *What, if anything, has postal management done to address such concerns?*

The Postal Service reinforces through policies outlined in the Employee and Labor Relations Manual its commitment to providing a work place free from reprisal. It is a prohibited personnel practice for anyone to take or fail to take a personnel action in reprisal for the exercise of any appeal right granted by a law, rule, or regulation. In addition, although the Postal Service is not subject to the Whistleblower Protection Act, our policies prohibit retaliation for disclosures of certain information to not only the Inspection Service, the Office of the Inspector General and Congress, but to anyone, including the media.

If an employee believes that the information evidences a violation of any law, rule or regulation or cites mismanagement, a gross waste of funds, an abuse of authority or a substantial and specific danger to public health, the disclosure is protected from reprisal unless the disclosure was specifically prohibited by law or Executive Order. Employees or applicants for employment may raise allegations of reprisal for prohibited personnel practices through a number of appeals processes. Where no process is otherwise available, the employee or applicant may appeal directly to the Senior Vice President, Human Resources, who will refer the complaint to the Inspection Service or other appropriate investigative authority, and the complaining party receives a written report of the disposition of his or her complaint.

In response to concerns that these policies are not clearly understood by employees and managers and that the policies are not as comprehensive as the Whistleblower Protection Act, the Postal Service's Office of Equal Employment Opportunity and General Counsel and attorneys for the Office of the Inspector General are working cooperatively to revise the Employee and Labor Relations Manual. The shared objective is to provide a process that more closely tracks the provisions of the Whistleblower Protection Act without violating collective bargaining requirements or creating a process that is ineffective. Once these revisions are made, the Office of the

Inspector General and the Postal Service will cooperate in a communication plan to introduce the process to postal employees and to reinforce our commitment to the enforcement of the prohibitions against retaliation in our workplace.

20. Last year the Service reported that the National Association of Letter Carriers (NALC) interest arbitration award would increase the then baseline forecast for FY2001 by over $370 million.

a) *Please update this estimate.*

The FY2001 estimate will be less than $370 million since the NALC upgrade will not occur until November 18, 2000 which is after FY2001 begins. FY2001 costs are estimated to increase by $328 million due to the upgrade. Full implementation of the upgrade will amount to about $370 million.

21. The American Postal Workers' Union (APWU) current contract expired in November, two days after carriers were to be upgraded from grade 5 to grade 6. The President of the APWU issued a statement indicating the APWU will settle for nothing less than full parity with the NALC in its contract. Clearly this is a major challenge to the Postal Service's efforts to control costs. The Service has noted that it does not believe that the inside work of APWU or Mail Handlers members is as complex as the outside work of NALC members. The Service argues that upgrading is not justified.

a) *What is the status of negotiations with the APWU? What are the major issues separating the parties? What are the prospects for reaching a negotiated settlement?*

Negotiations with the APWU began on August 22. Since that time, there have been over 10 main table meetings between the parties. Your question identifies one of the major challenges in reaching a negotiated settlement, namely, the upgrade for NALC employees. Clearly, the upgrade for the NALC will have an impact on the negotiations with the APWU. The Postal Service's goal in 2000 negotiations is to reach a negotiated agreement that is fair to APWU employees, responsive to our customer needs, and one which will allow us to maintain a competitive position in a very dynamic environment.

b) *What is the status of negotiations with the NRLCA? What is the major issues separating the parties? What are the prospects for reaching a negotiated settlement?*

Negotiations with the NRLCA began on September 6 and several main table sessions have been held since then. The Postal Service and the NRLCA entered into these negotiations with a sincere commitment to reach a

negotiated agreement. Issues of importance to the NRLCA are the equipment maintenance allowance and an increase in the use of postal-owned vehicles available for rural delivery. The USPS and the NRLCA continue in a cooperative manner to discuss the many proposals put on the table by the parties. The Postal Service's goal in 2000 negotiations is to reach a negotiated agreement that is fair to NRLCA employees, responsive to our customer needs, and one which will allow us to maintain a competitive position in a very dynamic environment.

c) *What is the status of negotiations with the NPMHU? What is the major issues separating the parties? What are the prospects for reaching a negotiated settlement?*

Negotiations with the NPMHU began on August 10. Since that time, there have been several negotiations sessions between the parties. Your question identifies one of the major challenges in reaching a negotiated settlement, namely, the upgrade for NALC employees. However, since the NALC upgrade was awarded to city delivery carriers and mail handlers do not perform outside delivery, the Postal Service does not anticipate that the NPMHU will seek an upgrade for its members during negotiations. The Postal Service's goal in NPMHU negotiations is to reach a negotiated agreement that is fair to employees, responsive to our customer needs, and one which will allow us to maintain a competitive position in a very dynamic environment.

22. The Service recently expanded Global Priority Mail (GPM) service to nine Caribbean countries/territories and one Central American country. The Postal Rate Commission's Report to Congress on 1999 International Mail Volumes, Costs and Revenues indicates that GPM on a unit basis made significant contribution to institutional cost. In contrast, the FY 1998 report indicated that GPM did not cover its costs mainly due to an aggressive advertising budget.

a) *Please discuss the measures taken by the Service to improve the financial performance of GPM in FY1999.*

In FY 1999, GPM made a significant contribution on a unit basis and on an overall basis. GPM was launched in 1996. In support of its launch, the product was advertised to create awareness of it as a new product. As awareness has increased over the past three years, the amount of advertising has been decreased. This follows standard marketing practices for the launch of a new product. GPM's significantly positive operating results have been consistent since its inception. The improved contribution in FY 1999 is attributable to startup advertising costs no longer being incurred.

b) *What was the breakdown between flat rate and variable weight service pieces in FY1999?*

In FY 1999, approximately 87 percent of GPM was flat rate and 13 percent was variable weight pieces.

c) *Would the Service agree that the PRC's review of international products and services has improved the Service's own understanding of the financial performance of its international products and services? How so?*

To date the PRC's review has not significantly improved the Service's understanding of the financial performance of its products and services. It may have been beneficial, however, to have the PRC validate the international data systems and to demonstrate that international revenues cover international costs in aggregate.

d) *What improvements have resulted in the accuracy of cost attribution as a result of the Commission's review?*

To date the PRC's review has not resulted in significant improvements in the accuracy of cost attribution. It may have been helpful to have the PRC endorse the validity of USPS international cost attribution procedures.

23. Last year you reported that the Service continues to research means for speeding up the production of reliable cost data. You noted that many timesaving and quality improving changes were made.

a) *What additional progress has the Service made in improving the timeliness and quality controls for cost and revenue data?*

Substantial efforts have gone into improving the timeliness and quality controls for cost and revenue data.

Several improvements have been made to more accurately distribute costs to products. They include:

- **More accurate distribution of Delivery Point Sequenced mail costs as a result of the redesign of the Rural Carrier Cost System.**
- **More accurate distribution of stamp printing costs by using current Originating-Destinating Information System (ODIS) data.**
- **Improved treatment of international terminal dues.**
- **Improved accrued cost information for transportation networks.**
- **This year we plan more cross-functional review of CRA results at the rate category level.**

- **Carrier cost volumes are systematically compared with RPW volumes on a quarterly basis, and other cost system outputs are systematically compared with data from previous years.**

b) *As a result of your efforts has the Service been able to move up the release date of the Cost and Revenue Analysis report?*

Yes. This year, the audited CRA report was available on April 4. This was five weeks earlier than the previous year, and is comparable with when other government agencies file their financial reports (March 31). Furthermore, an unaudited copy of the CRA is filed with the Postal Rate Commission on March 15.

24. Last year the Service indicated that data improvements made since the Chairman's request for the data quality study, as well as improvements recommended by the study will be reflected in the next case. The Service listed seven general areas of improvement that align with the study's recommendations.

a) *Please confirm for the record whether those improvements were included in the Docket No. R2000-1 rate filings.*

The Postal Service has been meeting regularly with Robert Taub, Tom Sharkey and GAO representatives, providing detailed briefings and reports on the status of actions taken in response to recommendations of the Data Quality Study, and a copy of the most recent report is attached.

In Docket No R2000-1, the Postal Service submitted new studies and analyses addressing the recommendations of the Data Quality Study Report, including

- **new mail processing data and analyses,**
- **an updated street time sampling study,**
- **an updated load time variability study,**
- **a more thorough assignment of specific costs to Priority and international mail (these costs had previously been treated as institutional), and**
- **improved documentation of the Transportation Cost System sample design.**

Other areas are being developed for inclusion in future rate cases:

- **updated facility use study,**
- **investigation of the impact of changes in FY99 Management Operating Data System (MODS) data,**
- **exploration of POS and other data sources for study of the retail area,**
- **new capital and support cost analyses, and**

- **other delivery study updates.**

b) *Please briefly summarize for the record how those improvements were viewed by the intervenors and the Postal Rate Commission.*

Our mail processing variability work has generally been supported by Periodical mailers and opposed by United Parcel Service. The new delivery data generally increased volume variable costs, and its use was opposed by Periodical and Standard A mailers but supported by representatives of the newspaper industry. The Postal Rate Commission (PRC) rejected the new mail processing data and analysis, preferring the assumption that the variability of mail processing labor is equal to one. The PRC also rejected the new city carrier data, with which the street time sampling study and the load time variability study were updated. The assignment of product specific costs was accepted by the PRC as was the improved documentation of the Transportation Cost System sample design.

c) *Now that you have plucked this "low hanging fruit", what actions have you taken since the case has been filed to address the remaining recommendations in the Data Quality Study Report?*

We have established a separate funding mechanism for studies designed to address recommendations of the Data Quality Study Report. Over the next two fiscal years, these funds are tagged to support work on:

- **delivery studies,**
- **mail processing issues,**
- **capital and support cost analysis,**
- **transportation cost studies,**
- **retail cost studies, and**
- **improving measures of the precision of unit costs.**

d) *I am concerned that given the cost-cutting that the Service will need to do, there may not be enough resources to implement the recommendations of the Data Quality Study. Do you see this as a problem?*

The Postal Service is committed to providing quality data and is a major sponsor of the Data Quality Study. As discussed with the staff of the House Oversight Committee, we plan to pursue the recommendations of the study. Funding has been estimated for this effort and work on many of the initiatives has begun.

25. The Subcommittee has received complaints regarding mail forwarding service.

a) *How does the Service accommodate the needs of customers who reside various locations depending on the season (i.e. – "Snowbirds")?*

Customers who relocate on a frequent or seasonal basis can file a "temporary" change of address with the Postal Service. First-Class mail is forwarded free (unless the mailer has directed its return) and periodicals are forwarded free for 60 days. Information regarding the temporary address is not provided to the mailer.

"Snowbird" service is available on request at post offices offering the service. Mail for the "away" customer is held locally and batched and reshipped to the temporary location by Priority Mail or Express Mail, at the customer's option. All customers must prepay the correct postage for the mailing method chosen.

26. *Please summarize the criteria used by the Service to determine the type of delivery (door, curbline or cluster box) that is provided to newly constructed residences.*

New housing receives either curb or central point delivery depending on whether it is single family (houses or townhouses) or multi-unit housing (apartments).

Local postal managers meet with developers before construction to discuss options. Each developer has the option of selecting curb or central point for single family housing. Multi-family housing must select centralized delivery.

Homes that are built within existing blocks receive the same type of delivery as the surrounding housing.

27. The Service has acknowledged that electronic diversion is a significant threat to its core revenue base, particularly its First Class revenues. You reported that you constantly monitor market conditions and consult with leading experts on electronic diversion. The Subcommittee is interested in learning more about these trends.

a) *Please provide an update on the latest trends in electronic diversion. Please address the trends in electronic diversion of bills, statements, and remittances. Has the Service developed any new strategies including product enhancements to forestall the diversion of mail to electronic form? If so, please explain.*

As described in the Postal Service's five-year strategic plan (now available online at usps.com), the future is uncertain. We continue to consider three possible scenarios: (1) a baseline case, where there are significant reductions in First-Class Mail volume and moderate Standard A Mail volume growth; (2) a rapid diversion case, characterized by faster reductions in First-Class Mail volume and reductions in Standard A Mail

volume; and (3) an historical case, where there will be moderate mail volume growth based on traditional trends. Chapter 2 of the Strategic Plan provides a detailed discussion of changes in the postal environment that will affect mail volume and the postal organization. Appendix 2, Projecting Electronic Diversion for First-Class Mail in the H.R. 22 Simulation Model, contains data presented by PriceWaterhouseCoopers to the Postal Service in February 2000. We are continuing to monitor industry publications from noted analysts like Forrester, Jupiter, Gartner, Killen Associates, and PriceWaterhouseCoopers to obtain the most up-to-date forecasts and information on changes in the marketplace.

The Postal Service is continually looking for new strategies and product enhancements to forestall diversion of First-Class Mail. We recently took advantage of Internet technology to launch the new hybrid mail service, Mailing Online. Mailing Online allows customers the convenience of designing a mail piece, submitting a mailing list, and providing payment online. This information is then transmitted to a printer under contract to the USPS, who will print the mail piece and enter the mailing into the mail stream. To educate small and medium-sized businesses about the value of using bulk mailing, we have a "Business Mail 101" application on our web site to help customers learn how to prepare mailings, and www.uspsdirectmail.com also provides information for mailers who want to use direct mail.

At the last National Postal Forum in September the Postal Service highlighted several, innovative initiatives. These are:

Friend-to-Friend Mail – A new business reply mail product extension currently in operations test that allows advertisers to send, in outer wrapping, postcards for their customers to mail on to friends and family. Customers write their personal messages on the cards and send them to a third party. Each card is embedded with a code that our new Confirm service records when pieces are entered in the mail stream, and the advertiser's account is debited.

Confirm – A new information service that allows mailers to track their letter-size mail pieces (and soon flats as well) for both outgoing mail and incoming reply pieces. Confirm uses a new barcode technology called Planet Code, which identifies the sender of the mail piece, as well as information about the mailing. Confirm provides marketing value by helping to synchronize telemarketing follow-up activities, reduce credit card fraud, improve cash-flow management, evaluate ad campaigns, etc. The Postal Service is currently evaluating various options.

Net-Speed News – A service extension that uses electronic distribution and printing to deliver smaller publications (hometown papers, sports news,

etc.) the same day they are put in circulation, regardless of where they originate. Operations testing is beginning this fall to determine the feasibility of having publishers send digitized publications to a third-party network and on to geographically distributed print stations in or near USPS facilities.

Micropayment - A First-Class courtesy/business reply mail product extension which was recently introduced that allows for the use of postage stamps to pay for small price-point purchases. Customers put extra stamps on a reply piece as payment, and the Postal Service reimburses the mailer 85 to 90 percent of the face value of the stamps. Potential markets include trial subscriptions, music, software samples, cereal box, and comic book offerings.

The Postal Service has a history as a pioneer and innovator. We will continue to look for ways, based on customer input, to make better use of technology to enhance existing products and develop new offers, often in partnership with private and public sector organizations.

28. It has been widely assumed that the increase in E-commerce activity may lead to increased demand for package delivery services.

a) *Does it appear that the growth of electronic commerce has increased total package volumes in the delivery market?*

The E-commerce phenomenon is changing the landscape of the package delivery market as volume increases are being recorded in all categories. A significant factor in this increase is the change that has occurred in the traditional bricks and mortar retail business. Customers who once took possession of their merchandise at the store are now taking advantage of the option to shop the Internet and have their orders arrive at the mailbox or doorstep. In addition, new industries have emerged whose business is strictly Internet driven. The Internet has given them "reach" to do their business.

The overall market is growing at a healthy rate and although the Postal Service is a part of that growth, its share is a modest one restrained as it is in the absence of Postal reform.

b) *Does it appear that the growth of electronic commerce has increased the numbers of catalogs being mailed?*

It does not appear that the growth of electronic commerce has resulted in an overall increase of catalogs in the mailstream. Although there are examples of on-line merchants choosing to invest in off-line advertising, such as

catalogs, there is an offsetting effect resulting from traditional advertisers now investing in on-line advertising.

c) *Does the Service have information on the total size of the domestic parcel market? If available, please provide information on the size by volume and revenue of the overnight, 2-day and ground package markets. In addition, please indicate the Services' shares in each market in the last available reporting period and the same period last year.*

Total Domestic Package Market Growth
1998 and 1999

	1998		1999		% change
	Volume (in 000's)	Revenue	Volume (in 000's)	Revenue	
Overnight pieces	1,256,082	$15,709,202	1,314,600	$16,724,478	4.7%
Two/Three Day	1,909,096	9,596,937	1,938,920	10,394,148	1.6%
Ground	4,703,423	16,867,744	4,814,913	17,862,419	2.4%
TOTAL	7,868,601	$42,173,883	8,068,433	$44,981,045	2.5%

Total Domestic Package Market Share
1999

	USPS	FedEx	UPS	Airborne	Others
Overnight	5.3%	42.8%	28.1%	19.7%	4.1%
Two/Three Day	61.9%	17.7%	15.9%	4.2%	0.3%
Ground	6.6%	10.4%	79.3%	n/a	3.7%
TOTAL	19.7%	17.4%	55.7%	4.2%	3.0%

(Source: "Competitor and Total Package Delivery Market Growth Projections"; The Colography Group, September 2000)

d) *Please explain any trends that appear evident in the Service's share of the package markets.*

Package shippers demand a competitively priced consistent, reliable service with an appropriate set of features to meet their needs. The Postal Service is in a share losing position across the product line because product features, operational capabilities and pricing are behind the market.

The only sustained package product growth to date has been in Priority Mail due primarily to a price advantage in lower weight cells. Market share in the two/three day market is slowing overall and the Service's share percentage of this segment is weakening due to erosion of the price value

position as competitors discount products and bundle services. Postal market share of the two-day market has declined from 63.5% in 1997 to 63.1% in 1998. The negative growth trend is projected to continue with estimates of share at 59% in 2004 if actions to improve the product position are not taken.

Note that the Service's volume share data are not indicative of a similar share in revenue due primarily to the concentration of lower cost lightweight pieces. The Services' revenue share was 44.8% in 1998 and 45.3% in 1999.

29. Some commentators have noted that the major competitors of the Postal Service, specifically FedEx and UPS, enjoy advantages over their competitors in the form of tax breaks and special support from state and local governments.

a) *Has the Postal Service reviewed any of the literature on this subject? If so, does the Service have an opinion as to whether such tax breaks and support puts the Service at a competitive disadvantage?*

Yes, the Postal Service is aware that commentators have discussed the relative competitive advantages of private sector service providers as compared to the Postal Service. However, the Postal Service has not fully evaluated the merits of these arguments and has not attempted to verify or to quantify the suggested advantages. The Postal Service favors a fair marketplace with all competitors on a level playing field.

Without such evaluation, the Postal Service considers the lack of pricing flexibility and the barriers to entry for new products more compelling competitive disadvantages than those mentioned.

30. The Service has often discussed its need for standard cost information to manage its operating costs. Given the current financial position and revenue forecasts it appears that such information is essential.

a) *Please provide an update on the results of the Postal Service's efforts to implement an ABC standard costing system.*

An Activity Based Costing (ABC) model for Processing and Distribution Centers has been developed and tested in Nashville and Memphis. The emphasis of the program is not on standard costing but, rather, on developing activity costs and rates that can be compared across plants for benchmarking, performance measurement and budgeting purposes.

b) *Are there any plans to implement the Activity-Based Costing Model on a nationwide basis?*

We are currently developing a plan to implement ABC at additional plants.

c) *What use has been made of the data collected thus far? Has the Service implemented any changes in the field particularly at the pilot sites that resulted in cost savings?*

Some cost saving changes have been implemented in Nashville, TN since the plant has data for a year's timeframe. For example, it was determined that one piece of automation was not cost efficient and it was moved to another facility.

31. The Service indicated that it would have to carefully evaluate whether any of the ABC costs would be consistent with the principles of cost causation and whether the data was useful for ratemaking.

a) *What has been the result of that evaluation? Will any of the data collected so far be used to support the Service's next rate filing?*

It is too soon to make any evaluation of the potential of ABC as an input to the ratemaking process. ABC is designed to support operations and measure costs in a manner consistent with operations processing, rather than by mail class or subclass.

b) *Please explain why the Service finds the MODS system data reliable for estimating mail processing cost variability in the rate case but is unsure as to whether the ABC data is consistent with cost causation principles.*

ABC is designed to support operations and measure costs in a manner consistent with operations processing, rather than by mail class or subclass. The decision to use data from any new system in the ratemaking process is an important one. It requires extensive study and careful evaluation.

32. UPS says the Postal Service's total ad budget is more than UPS and Federal Express spend combined. UPS claims the spending is unfair because the Postal Service uses profits earned on its monopoly letter service to fund ads promoting its competitive products.

a) *How do you respond to these charges? Please demonstrate for the record that the Postal Service does not cross-subsidize competitive products advertising with monopoly "profits."*

Since the Postal Service does not have a reliable source of information regarding total advertising and promotion expenses incurred by UPS and Federal Express, it is not possible to evaluate comprehensively the allegation that our advertising budget exceeds the combined advertising

budgets of those two organizations. The available Neilsen information relating to media buys, however, indicates that, over the most recent four quarters, those two firms combined have outspent Postal Service competitive services advertising by a considerable amount (i.e., in the neighborhood of 50 percent). The Neilsen reports do not include information on sponsorships of athletic events and stadiums, and we expect that the two firms spend considerably more for such activities than we do.

In the rate case, moreover, the Postal Service has amply demonstrated that proposed rates for each of its products, whether competitive or non-competitive, have been designed to cover at a minimum the full incremental costs of the product, including all advertising costs. This demonstration refutes any suggestion that so-called "monopoly profits" are used to cross-subsidize any portion of the costs of competitive products, whether relating to advertising or otherwise.

b) *How much did the Service spend on advertising on competitive and non-competitive products and services in FY1999 and FY2000? (For the purpose of responding please use the definition of competitive products identified in H.R. 22). Please provide the same information on a per piece basis.*

Information on advertising expenses for FY 1999 provided in the rate case shows that total expenditures for that year for competitive services (i.e., Priority Mail, Express Mail, parcel post, and bulk international mail) totaled $100.7 million. Expenses associated with services which in the H.R. 22 environment would be included in the non-competitive baskets (i.e., advertising mail, special services, and correspondence and transactions mail) totaled $45.5 million, leaving a residual amount of advertising expenses not specifically associated with either type of service of $74.1 million.

Total advertising expenditures in FY00 were considerably lower than in FY99. For the same services reported above as competitive, the FY00 advertising expenditures were $75.4 million which included promotional costs for special services associated with competitive products. FY00 advertising expenses for the same services reported above as non-competitive are $12.4 million. The residual amount of institutional advertising expenses is $ 60.8 million.

Per piece information requires the availability of piece volume data, and is not necessarily meaningful at the levels of aggregation (i.e., competitive vs. non-competitive) germane to this discussion. Based on the information provided in the rate case, it can be seen in FY 1999 that Priority Mail advertising costs per piece were approximately 7 cents in that year, parcel post advertising costs per piece were approximately 0.3 cents, and that FY

1999 was a year in which no advertising expenses were incurred for Express Mail. The large volumes of mail in the non-competitive categories cause their overall per-piece advertising costs to be trivial.

33. Last year the Service reported that it does not separately identify direct mail advertising by product and service.

a) *Is this still the case? Does the Postal Service not know how much was spent to send direct mail pieces to postal employees and other potential customers promoting its e-Billpay service? If so, how does this square with the concern for cross-subsidization of competitive products and services by monopoly profits?*

No. The Postal Service now tracks expenditures for direct mail advertising by product and service. The Postal Service spent approximately $1.45 million on these direct mailings. The Postal Service spends appropriate amounts on research and development of all new products and services. No organization, public or private, can develop a new product or service without incurring research and development costs.

34. Mr. Henderson, in our July 25th hearing, we had the opportunity to ask your Deputy, Mr. Nolan and the Chief Postal Inspector, Mr. Weaver, about their thoughts on the future of the Postal Inspection Service. I would like to follow up on some of the issues we discussed then. It has been brought to the Subcommittee's attention that the Postal Inspection Service has formed a committee to assess the future of the Inspection Service in the changing postal marketplace. I would like to complement the Inspection Service on taking this very positive and proactive step.

a) *It is my understanding that Ida Gillis, Inspector in Charge of the Northern Illinois Division is an ad hoc member of the committee. I believe that Ms. Gillis is currently on sabbatical from the Inspection Service so that she may serve as President of the National Organization of Black Law Enforcement Executives (NOBLE). In what capacity does the sit on the committee? As an Inspector in Charge, or as president of a law enforcement organization?*

Ms. Gillis sits on the committee as an Inspector in Charge of a large field division. The committee is made up of a diverse mix of Inspection Service employees: the Inspector in Charge of International Security; an Assistant Inspector in Charge of Strategic Planning; an Inspector/Attorney; Team Leaders from Miami and Houston; a Security Force representative and a Human Resources specialist representing the support functions of the Inspection Service. The committee is chaired by the Inspector in Charge of Congressional & Public Affairs.

b) *Have any other law enforcement officer's associations been invited to contribute to the committee? If so, which ones? If not, why?*

None of the groups is represented in an official capacity. However, Postal Inspection Service personnel belong to numerous fraternal and professional law enforcement-affiliated groups, such as the Fraternal Order of Police, Federal Law Enforcement Officers Association, NOBLE, Hispanic-American Police Command Officers Association (HAPCOA), Women in Federal Law Enforcement (WIFLE), the National Asian Police Officers Association (NAPOA) and the International Association of Chiefs of Police. Members of several of these organizations are on the committee.

35. *Please provide the cost of sponsoring the Postal Service Olympic Bicycling Team in FY 1999 and 2000.*

The official name of the cycling team is the United States Postal Service Pro Cycling Team.

This sponsorship involves an annual renewal, accompanied by negotiations concerning the participation of the Postal Service, other sponsors, and team budgets. Those discussions are currently ongoing, and I am concerned that the public disclosure of the information, which otherwise is confidential, could adversely affect the costs of current and future procurements. I would be pleased to provide this information to the members in some manner that would avoid this impact.

a) *Please report the names and titles, number of trips, and total travel expenses for all Postal employees who traveled internationally to participate or support other participants in all biking and promotional events associated with the Postal Service Olympic Bicycling Team.*

The following individuals were on official travel internationally to attend events surrounding the USPS Pro-Cycling Team participation in races:

1999:
Tour de France:
Gail Sonnenberg, Vice President, Tactical Marketing and Sales Development
Henry Cleffi, Manager, Programs and Planning
Walter Seale, Manager, Package Services
George Hurst, Manager, Mail Order
Margot Myers, Manager, National Affairs/USPS Cycling Team Spokesperson
Robert McKenna, Tactical Marketing Specialist

2000:
Tour de France:
William Henderson, Postmaster General/ CEO

Gail Sonnenberg, Senior Vice President, Sales
Henry Cleffi, Associate Vice President, Sales
David Mastervich, Executive Manager, National Accounts, Ad Mail
Margot Myers, Manager,USPS TV & Photography/USPS Cycling Team Spokesperson

Amstel Gold Cup Race (Belgium)/Meeting with TPG/TNT:
Henry Cleffi, Associate Vice President, Sales
Margot Myers, Manager, USPS TV & Photography/USPS Cycling Team Spokesperson
Leo Granos, Team Leader, Sales Acquisitions
David Morton, Acting Manager, Global Business Development

Total costs: $83,446.00

b) *Please describe the duties and responsibilities of each employee on such trips and explain why their presence at such events was essential to the Postal Service's mission.*

During the past several years, the Postal Service's Sales Group has been successful in developing relationships with the Pro Cycling Team co-sponsors and other firms with an interest in cycling, and then marketing our services/products to these people. Gail Sonnenberg, Sr. VP, Sales, and Hank Cleffi, Associate VP, Sales, made two official trips to France to attend the Tour de France with team co-sponsors and other customers with an interest in cycling.

The purpose of their trip was to foster good relationships with decision-makers in these companies and therefore promote the sales of postal services/products.

Postmaster General William Henderson made one official trip to the Tour de France for the same reason.

David Mastervich, Executive Manager, National Accounts, George Hurst and Walt Seale, Sales Managers, Leo Granos, Team Leader, Sales Acquisitions, and David Morton, Acting Manager, Global Business Development, each made one official overseas trip for the same reason.

Margot Myers, Manager, USPS TV & Photography, made three official trips to Europe to interface with the many reporters covering the Cycling Events and to report the team's success to the many postal workers who follow the team.

Robert McKenna, Sales Specialist, made one trip to the Tour de France for the same purpose. Additionally, as the coordinator of the Team, he interfaced with newspaper reporters covering the event.

c) *Were the costs of the Olympic Bicycling Team attributed to any particular products and services? If so, please provide the breakdown of the cost attribution. If not, how will these cost be recovered?*

Because the USPS Pro Cycling Team costs are not directly caused by the provision of a particular class of mail, the expenses are considered institutional and are not attributed to products. Institutional costs are recovered in the pricing process.

36. Last year the Service reported that it completed with the NALC, and was in the process of finalizing with the APWU and NPMHU, the development of a joint contract interpretation manual. The Service believes that these manuals, as learned with the USPS-NALC Joint Contract Administration Manual (JCAM), serve to address and alleviate many local workplace stresses.

a) *Have the JCAM's with the APWU and the NPMHU been finalized? If so, please provide copies to the Subcommittee. In addition, please provide a copy of the USPS-NALC JCAM. If not, why not?*

The Joint Contract Interpretation Manual (JCIM) has not been finalized with the APWU. The parties agreed during negotiations in 1998 to produce the JCIM. The Postal Service completed its work on the initiative and, as agreed to, provided its draft version to the APWU for their input in June of 1999. Despite repeated inquiries to the APWU on the status of its work on the project, to date, the APWU has failed to respond and has not provided input.

The Joint Contract Interpretation Manual (JCIM) with the NPMHU is close to being finalized. The Postal Service has completed its draft and the parties have agreed to all but 10 articles. We await the Mail Handlers' response on those 10 articles.

b) *Please describe how the manuals were distributed and received by field personnel. As with the NALC manual have the APWU and NPMHU JCAM been useful in resolving issues at the local level?*

In June 1998, the Postal Service sent one copy of the USPS-NALC Joint Contract Administration Manual (JCAM) to each city delivery unit in our system. Additional copies were sent to each district and area Labor Relations Office. The JCAM was also made available electronically on the Labor Relations website on the Postal Service Intranet. Recently updated, the October 2000 JCAM is being given the same distribution.

37. The Postal Service faces significant challenges in the marketplace. In order to meet these challenges it is clear that the Service must improve labor relations. The National Leadership Team was developed to engage the unions and management associations in a dialogue on the strategic focus for success of the Postal Service.

a) *Please report on the accomplishments of the Team over the last year.*

Extensive discussions were held on the following topics during the past year:

- **Developing a shared strategic vision for the Postal Service**
- **Legislative reform priorities**
- **Financial performance**
- **Growth goals and performance**
- **Feedback from the October 2000 National Executive Conference**
- **Update on recent legislative developments relating to the Postal Service**

b) *Does the Team continue to meet each quarter?*

Yes

c) *Please provide a current National Leadership Team membership list*

The National Leadership Team includes all Postal Service officers and all union and management association presidents. (A recent list of officers and union/management association presidents is provided on the second page of the Postal Service's Five-Year Strategic Plan for FY 2001-2005.)

d) *Please provide the results of the Voice of the Employee (VOE) surveys by Performance Cluster.*

See attachment

e) *Based on the survey results or any other relevant indicators what Performance Clusters does the Service consider its most challenging in terms of improvement s in labor relations? Why does the Service believe these PC's are particularly troublesome? What strategies will the Service implement in these PC's to improve labor relations?*

This is partially answered by the ranking of PCs by index scores, but I assume the question means which PCs need to improve in "people management," rather than labor relations which deals directly with the union. I would say the bottom third based on index scores. Our Human Resources office will continue to work with each area to support them in going after

these problems by sharing best practices from top-performing PCs and giving them tools to implement.

38. Last year you indicated that there are significantly fewer grievances received from the NRLCA than from the NALC and APWU. You described the backlog of grievances as "minimal".

a) *To what do you attribute this? Is there something in the nature of the Rural Carrier System, perhaps the compensation system and the general independence of carriers which tends to minimize the number of problems which generate grievances?*

It is true that there are significantly fewer grievances received from the NRLCA than from the NALC and the APWU, and this can be attributed to several factors. First, because the rural carrier craft compensation is based on an evaluated system in which overtime is built into the carrier's pay, there are few disputes regarding rural carrier pay or overtime which comprise a large number of grievances from the other two crafts. Second, unlike the APWU and the NALC, most rural carriers are employed in small rural post offices where there exists a "neighbor/family atmosphere." Many of these employees do not file frivolous grievances because of the relationship that exists between management and the employee, but will seek innovative ways to resolve day to day problems. Last, the Postal Service and the officers of the NRLCA have maintained a cooperative working relationship over the years. This cooperative labor/management environment is fostered by the Quality of Work Life/Employee Involvement (QWL/EI) process, the primary vehicle for many joint activities and resolutions to problems experienced by the parties.

b) *What lessons can the Service learn from this experience, which might be applied to its contractual relationships with the letter carriers and clerks and mailhandlers?*

Because of the differences that exist between the crafts, such as work facilities, (small offices verses large plants), the compensation system and union philosophy, it would be difficult if not impossible to apply the same general principles regarding the grievances to the other major unions.

39. Progressive organizations have adopted pay-for-performance systems to increase productivity. In the past the unions have showed no interest in pay-for-performance options.

a) *Is this still the case? Has the Postal Service formally presented any pay-for-performance proposals to any of the unions? If so, how were they received?*

During the 1998 contract negotiations with the major Postal unions, a pay-for-performance proposal similar to our nonbargaining Variable Pay Program was rejected. A new pay-for-performance proposal has been proposed in the current negotiations with the APWU, Mail Handlers and Rural Carriers.

40. Last year the Service reported on the functions and accomplishments of the National Workplace Environment Improvement (WEI) office. The office brings together the Employee Assistance Program and the crisis management and threat assessment efforts under the leadership and coordination of one office.

a) *Please update the Subcommittee on the activities of the WEI office. Does the Service believe the office is meeting its objectives and performing as intended?*

The Workplace Environment Improvement office is performing as intended to bring focus to the array of programs that affect the work environment. Regarding EAP, the joint committee with the major unions at the national level that oversees EAP has overcome some disputes over the last year and is currently productively engaged in improving the overall design and delivery of EAP services in advance of the expiration of the contracts with current vendors in fiscal year 2002.

Regarding violence prevention efforts including threat assessment and crisis management, the office has fully cooperated with the Califano Commission and the Office of Inspector General in their reviews of these activities and is now focused on overseeing the implementation of the recommendations from both groups for improving programs. The office has also worked over the past year to ensure that all areas' teams were in place and properly trained, and those efforts will continue.

Finally, regarding the office's responsibility to create, advocate, and disseminate tools that will lead to the effective, positive, productive management of people, it has been a key supporter of the field in providing guidance on meeting VOE survey improvement goals last year and this year. This effort will continue to involve disseminating best practices for use in the field and creation and implementation of new tools and methods for field use. Further, the office continues to use any opportunity to partner with functions and groups to drive improved people management. Examples include providing key staff support to a critical program which focuses on effective, positive management of attendance; providing staff consultation to operations in an effort by major metro facilities to improve productivity; chairing a joint committee at the national level to review and resolve troubled worksites; and providing facilitation and intervention services to individual headquarters functions who needed them.

b) *How has the management challenge impacted training to improve communication and the treatment of employees in the workplace if at all?*

We are not aware that the management challenge has directly impacted training requirements concerning communication and treatment of employees. Last year and again this year, there is a requirement to include at least four hours of training for bargaining and non-bargaining employees on subjects related to improving work relationships and communications.

c) *Has the Service continued or increased its training requirements of 20 hours for management levels 15 and above and 8 hours for management levels 14 and below and craft employees?*

The training requirements for employees have been continued for this year.

41. The Subcommittee is interested in the status of the Service's training programs.

a) *You reported that the Associate Supervisor Program (ASP) was scheduled for a major update in the year 2000. Was the program updated as planned? If not, why not? How many employees participated in the program in FY2000?*

The revision of the ASP program was a major effort in FY 2000. The Processing and Distribution functional track was completely revised and piloted, and the completed materials were made available for distribution in September. The Bulk Mail Center functional track has been revised and piloted, and is scheduled for release in January 2001. The revision of the Customer Service functional track, which began in FY 2000, is nearing completion. The Retail segment of this track has been piloted, and the pilot of Delivery segment is scheduled for Q2 in FY 2001. A new safety course, Safety for Postal Leadership, has also been released to replace the prior safety module in the program. In addition, a new ASP Website, which conforms to new national requirements for access by the visually impaired, has been developed and is available on-line

In FY 2000 there were 2080 employees completing the program.

b) *Please provide an update on the Advanced Leadership Program (ALP). How many employees graduated from the program in FY2000?*

During FY 2000 the Advanced Leadership Program continued preparing high potential managers for leadership roles in the future. The program was developed in response to a workforce analysis finding in 1997 that in three to five years, 40 to 50% of current postal executives would be eligible for retirement. To determine program effectiveness and value, an analysis of promotions to executive and non-executive positions was conducted in May of 2000. Of 1,253 ALP participants, 510 received promotions, a rate of

40%. Of those 510 promotions, 70 were to executive positions. Therefore, 14% of all ALP promotions were to executive positions. A comparable analysis of 4,218 non-ALP participants determined 196 were to executive positions, or 5%.

At the end of FY 2000, a total of 34 classes with approximately 42 students per class had entered the program. Approximately 1,420 participants have enrolled in the program. 155 participants not only completed weeks 1 through 4, but also finished the formal education component of the program and were eligible to participate in graduation ceremonies in October of 2000.

Program improvements include a new video describing the Executive Competency Model (on which the program is based), an updated Enrollment Guide and Web site; a new evening speaker series called Executive Chat; and the addition of two Postal Vice Presidents as regularly appearing ALP faculty. ALP was reviewed by the American Council on Education (ACE) and judged equal to 12 undergraduate college credits. As a result, ALP students pursuing college degrees will be able to apply their ALP experience towards those requirements.

c) *Has the Service continued the Career Management Program (CMP). If so, please provide an update on the program. How many employees graduated from the program in FY2000?*

The Career Management Program is nationally supported as a major ED program for the purpose of enabling leadership competencies in supervisors and managers. There are three programs within CMP: the General Supervisory Skills Training, Advanced Supervisory Skills Training, and Managerial Skills Training. The first two programs are targeted at, respectively, newer and more experienced supervisors. The third program is targeted towards those who manage supervisors. While there were some minor revisions to the General Supervisory Skills track of CMP, the content of this relatively new program was stable throughout the year. There were 1400 employees who graduated from the program within the fiscal year.

d) *Please discuss the results of your review and any revisions you made to the maintenance courses offered at the National Center for Employee Development (NCED).*

The Curriculum 2000 (C2K) project, designed to revise and streamline the maintenance curriculum at NCED, came to final stage in FY2000. The effort included course reviews and revisions and culminated in the identification and development of a foundation, framework and introductory curriculum made up of activities students must complete prior to attending the technical lab-based courses at NCED. These learning activities consist of

self-study, computer assisted training, equipment walk-arounds and checklists to provide basic knowledge the employee needs to succeed in the highly technical hands-on courses at NCED. This at-home preparation will enable employees to become productive and increases employee understanding of the job requirements prior to formal training. Product Development and Evaluation (PD&E) is working with NCED to develop and implement this curriculum in the field.

e) *What was the result of your review and revisions to the Orientation for New Employees (ONE)?*

The March 1997 version of ONE took Orientation for New Employees from 16 hours to 5 hours. This was necessitated by the need to place new-hires on the rolls and in their operations positions as soon as possible. Over a period of time, various functional departments saw a need to include, within ONE, a brief presentation apprising new hires of their agendas. This inclusion of functional information expanded the program to 8 hours.

The January 2000 revision reduced the amount of extraneous information that had crept into the program and met the need for functional information that was missing from the original 1997 version. Additionally, it was the first Employee Development product to be introduced in its entirety on CD ROM (Facilitator Guide, Student Workbooks, PowerPoint Slides and Video Montage). The new 8-hour ONE was created to be more interactive and more of a welcome to the postal service than its predecessors. The postal field response has been overwhelmingly positive.

Orientation for New Employees is the number one ordered product for Employee Development, with over 65,000 copies ordered in FY00. In addition to CD ROM, it is also available on the Employee Development website. It can be downloaded from each of these resources.

f) *How many employees participated in the Bulk Mail Acceptance Unit (BMAU) training and Sales and Services Associates Training in FY2000?*

In Fiscal Year 2000, 313 employees completed BMAU training at NCED. Another 480 employees completed Standard Mail Classification training in field offices. Field Offices delivered Sales and Services Associates training to 6,082 employees during the fiscal year.

g) *Please describe how these training programs were integrated into the organizational support for the Service business and diversity goals.*

Postal sponsored training and development is designed to meet the technical and developmental needs for two categories of employees, management and craft. Diversity goals are supported through the

integration of diversity related subjects in training programs and emphasis on diversity awareness in the production of materials used for training programs. Support for service and business goals is achieved through the delivery of technical programs both in the field and at the National Center for Employee Development.

The Associate Supervisor Program supports service and business goals through teaching functional skills for mail processing, bulk mail, and customer service functions. It also supports workplace environment and diversity goals through enabling competencies involving leadership communication and positive workforce management. Likewise the Career Management Program supports both business goals and a positive work environment by teaching appropriate leadership and communication skills. The Advanced Leadership Program focuses on high-level competencies that enable the organization to better prepare and position itself for change in the larger business environment.

The Sales and Services Associates Training Program (SSA) supports retail operations by providing the Sales and Services Associates with the knowledge and skills to effectively and efficiently perform their retail responsibilities. The KSA's that the Sales and Services Associates have acquired provide a basic working knowledge of customer relations and selling techniques, financial procedures and responsibilities, and postal products and services.

The newly acquired KSA's are aligned with improving Retail Operation's goals through improving scores on Retail's major programs such as Ease of Use (EOU), Mystery Shopper, Plan For Retail Operation (PROP), and Retail Unit Proficiency (RUP).

Similarly, the BMAU supports business and service goals by addressing sales and retail competencies in the area of bulk mail acceptance. Bulk mail acceptance training gives employees the skills to ensure that mailings are charged at the proper rate, thereby protecting revenue.

h) *For each of the program described above please provide, if available, the number of graduates or participants broken down between minorities and others, and women and others (i.e. – men).*

ORIENTATION FOR NEW EMPLOYEES (CAREER)			
Female	Male	Unknown	Total
9,886	12,232	9,627	31,745

ORIENTATION FOR NEW EMPLOYEES (CAREER)

Amer Ind/Ala Nat	Asian Pac Isl	Black	Hispanic	White	Unk	Total
162	2,286	5,517	2,182	11,970	9,628	31,745

ORIENTATION FOR NEW EMPLOYEES (NON-CAREER)			
Female	Male	Unknown	Total
11,780	8,061	25,261	45,102

ORIENTATION FOR NEW EMPLOYEES (NON-CAREER)						
Amer Ind/Ala Nat	Asian Pac Isl	Black	Hispanic	White	Unk	Total
195	1,108	5,494	1,695	11,348	25,262	45,102

ASSOCIATE SUPERVISOR PROGRAM		
Female	Male	Total
860	1,220	2,080

ASSOCIATE SUPERVISOR PROGRAM					
Amer Ind/Ala Nat	Asian Pac Isl	Black	Hispanic	White	Total
12	147	647	219	1,055	2,080

CAREER MANAGEMENT PROGRAM				
	Female	Male	Unknown	Total
Gen Sup Skills	90	107	2	199
Adv Sup Skills	307	383	3	693
Manag Skills	194	312	2	508
Total	591	802	7	1,400

CAREER MANAGEMENT PROGRAM

	Amer Ind/Ala Nat	Asian Pac Isl	Black	Hispanic	White	Unknown	Total
Gen Sup Skills	2	4	87	10	94	2	199
Adv Sup Skills	5	25	317	56	287	3	693
Manag Skills	2	22	147	52	283	2	508
Total	9	51	551	118	664	7	1,400

ADVANCED LEADERSHIP PROGRAM				
	Female	Male	Unknown	Total
Week 1	128	255	4	387
Week 2	114	234	5	353
Week 3	132	283	5	420
Week 4	173	396	7	576
Total	547	1,168	21	1,736*

ADVANCED LEADERSHIP PROGRAM							
	Amer Ind/Ala Nat	Asian Pac Isl	Black	Hispanic	White	Unknown	Total
Week 1	4	13	75	23	268	4	387
Week 2	5	10	63	20	250	5	353
Week 3	8	16	73	33	285	5	420
Week 4	6	21	98	45	399	7	576
Total	23	60	309	121	1,202	21	1,736 *

*Represents total number of class completions within the FY, not unique individuals

42. A federal judge has recently granted Emery Worldwide Airlines request for a summary judgment in a lawsuit filed against the Service. The agreed with Emery's interpretation of a contract agreement on pricing for transportation and sortation of Priority Mail. He gave the Postal Service until October 12 to comply with the contract. The Service must respond to the company's specific pricing proposal proffered back in February 8.

a) *What will be the additional cost to the Service to comply with the judge's order for 1999 and 2000?*

The court made two rulings relevant to this inquiry. First, it found that the Postal Service was obligated to pay Emery a reasonable and material provisional rate increase, under the contract, until such time as the parties finish renegotiating the fixed price rate. To comply with that ruling, on October 4, 2000, the Postal Service paid to Emery the sum of $102.1 million attributable to provisional rates that were payable during calendar year 1999 through September 8, 2000. In addition, the Postal Service is paying a provisional rate to Emery through the end of calendar year 2000 starting with September 9 at an increase amounting to approximately $12 million.

Second, the court found that the Postal Service must respond within 45 days of its decision (by October 10, 2000) to Emery's February 1, 1999 price redetermination proposal. On October 10, the Postal Service responded stating that due to deficiencies in Emery's accounting systems, an ongoing audit of Emery's costs by the Defense Contract Accounting Agency has yet to be completed; but that when it is completed, it will assist the Postal Service in establishing some basis for a substantive response. Accordingly, there is no basis at this time to conclude whether the provisional rate payments will be large enough to compensate Emery for 1999 and 2000 or whether the provisional rate is too large and thus money must be recovered from Emery for overpayment.

b) *What impact will these additional costs have on the Priority Mail rates? Will these additional costs be provided to the Postal Rate Commission so that they can be incorporated into the record?*

For a number of reasons, the additional costs have no impact on the Priority Mail rates recommended by the Postal Rate Commission. It must be noted at the outset that the evidentiary record in the pending omnibus rate case, Docket No. R2000-1, was closed by the Commission on September 8, 2000, to allow the Commission sufficient time to prepare its rate recommendations. Thus, there was no time to supplement the record to reflect the court decision. Also, the amounts of the additional costs to be attributed to specific classes of mail in specific time periods is a matter of accounting treatment that has not yet been resolved.

43. Last year Airborne began to offer Airborne@Home a service that utilized the Services drop ship package rates for delivery.

a) *What special arrangements, if any has the Service established to handle Airborne@Home packages? If so, please provide all administrative, marketing and operating costs associated with the Service's arrangement with Airborne.*

No special arrangements were made to handle Airborne@Home packages.

b) *Did the Service form a strategic alliance with Airborne to facilitate the delivery of Airborne@Home packages?*

There was no strategic alliance formed with Airborne. There was a basic mailing agreement that outlined how the mail was to be accepted, processed and delivered. The mailing agreement is no different from one that would be prepared for a similar customer. Simply put, Airborne took advantage of an excellent cost efficient opportunity to get their packages delivered in a timely manner, an opportunity available to all.

44. At least one postal analyst has said that Airborne@ Home "isn't working out for the Postal Service."

a) *If the Service is simply offering a published rate to Airborne and assuming the Service has not made any special arrangements to handle such pieces, what do you think the analyst means by "not working out"?*

We believe that Airborne@Home is working out. At the program's launch, there were scattered reports of start-up problems with mail acceptance at various Postal facilities. Those types of problems are typical when new customers first begin to work with the Postal Service.

b) *What was the volume, cost, revenue and volume of Airborne@Home delivered by the Service in FY1999 and 2000?*

Out of deference to customers' concerns for confidential treatment of their private business affairs, and our own concern for proprietary information the disclosure of which would be of value to firms in economic competition with the Postal Service, we do not publish such statistics broken down by individual customer. On the question of cost to the Postal Service, since Airborne@Home is a delivery product only, there are no specific costs associated with it. The cost of delivery should be the same as for any other package product.

c) *What were the revenue, volume and/or contribution goals for Airborne@Home and did the Service meet those goals for FY1999 and FY2000?*

Since Airborne considered this to be a market test until the beginning of 2000, Airborne@Home's volume/revenue was not isolated for FY 1999. In addition, no contribution goals were set but total revenue to the Postal Service through September 2000 has exceeded $5 million.

45. As you are aware, H.R. 4437, the bill granting the Service the authority to issue semipostal stamps, passed with unanimous support of Members in both the House and the Senate. It is now Public Law 106-253. The law gives the Postal Service a great deal of discretion and flexibility in issuing regulations and semipostal stamps. There is a certain amount of anticipation and anxiety among those promoting semipostal stamps that the Postal Service should proceed expeditiously towards this goal, and there are many who have indicated their interest in working with the Postal Service in seeing that Public Law 106-253 comes to fruition. There is reasonable expectation that the Postal Service will act expeditiously to put the necessary regulations in place and have them open to public comment even if the first semipostal stamp is not issued soon thereafter.

a) *What are your plans or timeline for issuing the semipostal regulations?*

The Postal Service plans to publish regulations under Public Law No. 106-253 in the Federal Register by January 29, 2001.

b) *How often does the Service plan to issue new semipostals? Will more than one semipostal be offered for sale at the same time?*

Under the current proposal, the Postal Service plan is to issue semipostals every two years, beginning sometime after July 29, 2002, which is the date that the Breast Cancer Research semipostal sales period ends. Only one semipostal will be offered for sale at a time.

c) *In your study of commemorative stamps, what is the rate of retention that you can document?*

In a national poll of 10,000 Americans, we found that 15.8% of American households collect stamps for non-mailing purposes. However we cannot quantify the retention rate of stamps collected. For any commemorative stamp, we measure the number of stamps saved as a percentage of stamps bought and refer to this as the "savings rate".

d) *What types of commemorative stamps are retained more than others?*

Popular stamps to save include those on topics related to entertainment, history, the military, space exploration, and geography. Also, any stamps that are sold as a series or in a multiple format tend to have high retention.

e) *So far there has been just one semipostal stamp issued by the Postal Service. What was the estimated retention rate for the breast cancer stamp up until July 29, 2000?*

Social awareness stamps such as the Breast Cancer Research stamps are not measured. It is Postal Service policy that these types of stamps not be measured for retention revenue purposes.

f) *The Breast Cancer Research Semipostal raised about $15 million for research during its first two years of sales. Will that become the benchmark for future semipostals? If not, what are your expectations for future semipostal sales?*

The benchmark for future semipostals will not be $15.7 million. Semipostal sales will depend on the popularity of the subject, how the cause directly or indirectly affects the individual purchaser as well as the level of publicity, advertising and promotional support. We cannot ensure that future semipostals will receive the same level of unified voluntary support and promotion from communities and individuals throughout the nation as the Breast Cancer Research Semipostal. We expect as more semipostals are issued, the public's need to support these stamps might decline.

g) *If a semipostal stamp does not cover its costs in the future, how does the Service plan to recoup its costs? What are the chances of this happening?*

If the Service were to issue a semipostal stamp that does not generate sufficient surcharge revenue to cover its costs, the Service would be required by the Semipostal Authorization Act to recover the full costs incurred in producing and selling the stamp, in theory, up to the full amount of the revenue generated by the surcharge. The success of the Breast Cancer Research Stamp notwithstanding, it is possible that other semipostal issues in the future may not be nearly as well received by the public. We cannot project the likelihood of revenues falling short of costs, but this will be minimized by issuing semipostal stamps only for causes that have substantial and widespread public support

h) *The Service has stated that it will not recoup all training and reprogramming costs generated by the Breast Cancer Stamp. Why is this the case? Aren't postal rate payers being forced to contribute to breast cancer research?*

The Service considers that the approximately $612,000 in training costs in question represent costs that we routinely incur whenever we introduce a

new retail product that must be accounted for in a different manner and employees must be advised of new procedures. Such costs, among many others, are already factored into and are covered by the 33-cent First-Class postage rate (portion of the Breast Cancer Stamp) and therefore are not among the incremental costs that need to be recovered separately from the surcharge revenue. Concerning the recovery of the reprogramming costs for retail window automation devices to accommodate sale of the stamp, the Service determined that the automated download to reprogram the devices did not work properly and they had to be reprogrammed manually. The Service does not consider it appropriate that the entire cost for the manual download be recovered from the stamp surcharge. As a reasonable compromise, it was decided that one-half of the reprogramming cost would be charged to the Breast Cancer Stamp and the other half borne by the Service. As with any other First-Class postage stamp, the Breast Cancer Stamp's contribution on a per-unit basis to the institutional (i.e. overhead) costs of the Service is significant. The relatively minor costs generated by the Breast Cancer Stamp, such as these reprogramming costs, that are not charged against the surcharge revenue are more than covered by the stamp's contribution. Thus, it is clear that there is no cross-subsidization of the stamp's costs by other rate payers. There are no involuntary contributions to breast cancer research by the public - only voluntary contributions through purchases of the Breast Cancer Research Stamp.

46. The Chairman has received an inquiry as to why there has never been a commemorative stamp issued honoring the Foreign Service, FBI or CIA.

a) *Have such stamps ever been considered by the Citizens' Stamp Advisory Committee? If so, are such stamps currently under consideration?*

The essential criteria used by the Citizens' Stamp Advisory Committee have been in place since the early 1970s. One provision of the criteria states that "stamps or stationery items shall not be issued to honor cities, towns, municipalities, counties, primary or secondary schools, hospitals, libraries, or similar institutions. Due to the limitations placed on annual postal programs and the vast number of such locales, organizations, and institutions in existence, it would be difficult to single out any one for commemoration."

Due to the small number of stamps issued each year and the current criteria, stamps have not been produced commemorating Federal agencies. However, the Committee did review the nomination of the Central Intelligence Agency (CIA) for commemoration. Currently, there are no Federal agencies under consideration for recognition in future stamp issuances.

Our own United States Postal Inspection Service, the oldest federal law enforcement agency, has not been the subject of its own stamp.

47. In its June 22 comments on OSHA's proposed ergonomic standard the Service stated that there is every reason to believe that the cost of compliance, in orders of magnitude, will be as significant as the Service's main competitors predict. UPS predicts compliance would cost at least $19 billion in the first year and $4 billion annually in subsequent years. FedEx estimates that the cost of compliance will be $20 billion for the first ten years.

a) *Please provide the Service's best estimate for the cost of compliance.*

b) *Considering the conflicting mandates in the law that such costs cannot be recovered from rates and that the Service's must break even, does the Service anticipate that it will ask Congress for an appropriation to cover the cost of OSHA ergonomic regulations.*

Considering the subjective nature of the proposed rule and the anticipated inconsistencies in interpretation and enforcement should it become final, we have no reason to doubt the cost estimates developed by FedEx and United Parcel Service.

The Postal Service, like many general industry employers, has had considerable difficulty in evaluating how the standard would affect its operations. One of the main reasons for this is that the key terms of the proposed ergonomics rule are extremely vague and ambiguous. OSHA defends the lack of specificity on the basis that its goal is to afford employers the flexibility of a "performance based" standard. Even if employers accept that OSHA would enforce the standard as such, and not allow its compliance officers to enforce the standard as a post hoc specification standard, the "performance criteria" are so vague that an employer can never know when it has met its obligations. These ambiguities permeate the core provisions of the standard and have been extensively challenged by general industry, particularly by the manufacturing and manual handling employers.

For the aforementioned reasons, and the strong likelihood that the rule will require considerably more work and significant changes before it can be finalized, it is too soon to quantify the economic impact or to determine the appropriateness for an appropriation from Congress.

Further complicating this complex issue is the secrecy with which work on the proposed rule has proceeded. To our knowledge, no one has effectively responded to the multitude of industry concerns which were evident during the public hearings and in the content of industry comments in response to the proposed rule.

As previously indicated, notwithstanding the potential for promulgation of a final ergonomics rule, the Postal Service is committed to providing safe and healthful working conditions and has incorporated ergonomics considerations into its systems and operations.

48. The Subcommittee has received reports that employees participating in the joint Department of Labor/Postal Service rehabilitation program are sometimes inappropriately pressured to return to regular duty.

a) *Please describe the rehabilitation program.*

From December 1978 to May 1979, the Department of Labor, Office of Workers' Compensation Programs and the Postal Service conducted a pilot program for the rehabilitation of injured workers through reemployment. From that pilot program, procedures and forms were developed that provided the basis for guidelines issued in October 1979 and subsequently incorporated into Handbook EL-505, Chapter 11, Rehabilitation Program. The joint rehabilitation program was developed to fulfill the Postal Service's obligation to provide gainful employment within an injured employee's medically defined restrictions.

To be eligible for participation in the rehabilitation program, the employee must meet the following criteria:

- **An approved claim on file with OWCP**
- **A job-related, permanent partial disability documented by medical evidence**
- **Receiving or eligible to receive compensation payments for disability**

b) *What are the procedures and criteria used to facilitate the return of disabled employees to regular duty?*

To facilitate returning an injured employee to suitable employment, we monitor the employee's medical progress and duty status by obtaining periodic medical reports from the employee's treating physician. Injured employees who are not totally disabled but who are not able to return to their regular assignment are accommodated in temporary limited duty assignments within their medical restrictions pending their full recovery and ability to return to regular duty.

49. The Subcommittee has received reports that post office personnel in response to customer inquiry regarding misdeliveries are recited a litany of excuses such as "the carrier is out on the street," "the mail is heavy," "it's

vacation time" or "a number of people are out sick." Customers are tired of hearing excuses and are looking for results.

a) *What procedures are used to correct misdeliveries the day that they occur? Is the carrier sent back on the street to collect the misdelivered mail and delivery it to the correct address?*

Generally, misdeliveries are handled in the following manner:

1. **If a misdelivery is noticed by the customer and the letter carrier is still visible, the carrier is normally made aware of the error immediately and proper delivery is made if the piece is on the same street or if the intended address has not yet been delivered. Local policy may dictate that any misdelivered piece be delivered that day; however, these local policies vary.**

2. **If a misdelivery occurs and the letter carrier is not visible to the customer, the mail is usually returned to the post office by having the customer place the misdelivered piece back in the mailbox or collection box. Proper delivery will then be made the following day.**

b) *What procedure is used to prevent chronic misdeliveries? What feedback mechanism is in place for carriers to inform mail processing that perhaps the walk sequence sort routine software is misprogrammed? What corrective measures does the delivery supervisor have to monitor and correct carrier misdeliveries when mail is hand sorted by either the carrier or a router?*

Supervisors will conduct address management street reviews ensuring that all addresses contain proper numbering and directional such as "Court," "Lane," "Way," etc. Any corrections necessary are fed back to mailers in order that proper addressing may be accomplished. Delivery supervisors are required to perform periodic quality casing checks on letter carriers where they pull random mail from the letter carrier case and check it against the address cell on the case. As a final quality check, city letter carriers are required to "finger" through the mail before delivery in an effort to prevent misdeliveries.

A feedback mechanism is in place to inform mail processing of walk sequence sort plan errors. Once delivery point sequence (DPS) mail goes directly to the street, any errors encountered by the letter carrier are reported to the supervisor and these errors are reviewed to determine the cause. If changes in the sort plan are needed a delivery supervisor may communicate them electronically, using an editor located on the Delivery Unit Computer, to the processing unit through a system called the Station Input Editor.

On a broader scale, the USPS has also implemented a customer diagnostic feedback tool that identifies various types of misdelivery that may occur for all classes of mail. This tool was piloted at the national level and then implemented at the local level during FY2000. This tool, combined with feedback from our customer satisfaction survey data and other consumer feedback mechanisms, provides actionable data at the field level. Process improvement activities were implemented during FY2000 to address several aspects of misdelivery. We have made some progress and we will be in a position to provide more specifics about misdelivery improvements next year.

c) *What training do personnel have on customer communications? Is there any discussion with regard to explaining the source of problems to the customer beyond excuse making? Are postal employees encouraged to make amends for a service failure through a "customer compensating event" to re-establish customer satisfaction?*

Communications training is available for supervisors and may be credited towards their required training hours for the year. There is also a specific course on communications with customers for Sales and Services Associates. There is no national program that encourages local managers to compensate customers directly or via a "customer compensating event" for service failures.

50. The Subcommittee has received reports that rural carriers can request that their route not be counted. Despite their request route are nonetheless, as the Subcommittee at the suggestion of union officials.

a) *Please explain the procedures and rights of rural carriers to opt in or out of a route mail count. Who, either in the union or in management or both, has veto power over the carrier's choice?*

As part of the contractually required national mail counts conducted in September 1999 and September 2000, postmasters/managers and regular rural carriers were given an opportunity to elect to have their mail routes counted. In June of each year, the regular carrier and their postmaster/manager were given an opportunity to elect to count or not count. If either party elected a count, the count was scheduled in September. This scheduled count could not be cancelled without the mutual consent of the two parties. If both parties elected not to count, a count was not scheduled in September. This election could not be changed. Vacant and auxiliary route counts were contractually required in September 2000. In September 1999, vacant and auxiliary route counts were conducted at management's discretion.

Union officials have no authority to override the postmaster's or carrier's request to count or not count barring a clear contractual violation on management's part.

b) *What percentage of rural routes were counted in FY1999 and FY2000? How many of these counts resulted in downsizing and upgrading the route?*

In the September 1999 national mail count, 25.3 percent of all rural routes did not count. This would indicate that there was a mutual agreement between the postmaster/manager and carrier not to conduct that mail count. Of the 74.7 percent of the routes that elected to count, 47.4 percent increased their hours, 15.0 percent stayed the same, and 12.3 percent lost some evaluated time.

In the September 2000 national mail count, 27.8 percent of all rural routes did not count. Again, this would indicate that there was a mutual agreement between the postmaster/manager and carrier not to conduct that mail count. Of the 72.2 percent of the routes that elected to count, 19.9 percent increased their hours, 36.9 percent stayed the same, and 15.4 percent lost some evaluated time.

51. In the debate over postal reform United Parcel Service expressed serious concern that the Service is abusing its monopoly position. Elaborate materials attacking the Service were distributed to members of Congress. Included in those materials was a CD entitled: "What the Postal Service Doesn't Want You to Know." In addition, there was a 16-page booklet that compared the Postal Service to the CIA.

a) *Has the Postal Service seen the aforementioned information? If so, in order to clarify the record, please summarize and respond to the charges made in these materials.*

Yes, the Postal Service has seen the "brown box" and addresses each charge below.

UPS RHETORIC: The Postal Service cross-subsidizes, using monopoly revenues to undercut prices for competitive services.

REALITY: **It's simply not true. The Postal Rate Commission, the USPS Inspector General, and the General Accounting Office, and the U.S. Courts of Appeals have all investigated this claim and found it not to be correct.**

Background

- The Postal Reorganization Act, passed by Congress in 1970, makes it illegal to cross-subsidize. The Postal Rate Commission carefully studies postal costs and finances to make sure the law is upheld.

UPS RHETORIC: The Postal Service has an unfair competitive advantage because it pays no local, state, or federal taxes; does not register or license vehicles; pays no road-use fees or parking tickets; does not collect or remit sales taxes; and is exempt from local zoning laws.

REALITY: Our advantages save us millions. Our public service responsibilities and restrictions cost us billions. No private company wants to trade places with us.

Background

- The Postal Service alone must foot the multi-billion dollar bill for maintaining a massive, unparalleled national infrastructure.
- The Postal Service is required by law to make regularly scheduled collections and deliveries to each American address.
- Six-days-a-week, more than 300,000 letter carriers (more than the total domestic workforce of UPS) deliver 630 million pieces of mail to 130 million locations.
- To ensure universal access, the Postal Service staffs nearly 40,000 post offices nationwide. More than 17,000 of these offices are located in sparsely populated areas and do not (and probably will never) cover their costs.
- The Postal Service cannot pick and choose its customers like UPS can. UPS charges an extra $1 for each residential delivery and an extra $2 for each rural delivery. UPS also claims to connect "98 percent of all the residential doorsteps in the country" and "99 percent of all the businesses." That means it fails to serve about two million households and 170,000 small businesses.
- UPS doesn't have to pay the more than $800 million it takes to fund the Postal Inspection Service; an independent Inspector General; the Postal Rate Commission; a national, up-to-date database of every address; and free forwarding costs for the 42 million address changes each year.
- UPS has freedoms and flexibilities the Postal Service does not.
- The Postal Service cannot grant volume or seasonal discounts. UPS can. Virtually all UPS has to do to win a huge contract is underbid our published rate schedules. This is a huge advantage.

- UPS can change prices up or down overnight. The Postal Service has to spend thousands of hours (and millions of dollars) preparing and defending rate cases and many months awaiting a decision before it can even implement them.

- The Postal Service is constrained by a host of laws and government regulations. Agencies like the Office of Personnel Management, the Department of Treasury, the Department of Labor, the Department of Justice, and the Department of Transportation all have a say in how the Postal Service does business.

- The Postal Service does pay real estate taxes (about $100 million on leased facilities last year). It does follow local zoning laws in nearly every situation. It does pay the licensing fees for the 100,000 rural carriers who use their own vehicles on their routes.

- Despite all the rhetoric, no competitor would give up its private sector flexibility and freedom to assume the Postal Service's "advantages."

UPS RHETORIC: The Postal Service has no oversight and is accountable to no one.

REALITY: Actually, the opposite is true. The Postal Service operates in a fishbowl. We must answer to Congress, the Board of Governors, the Postal Rate Commission, the General Accounting Office, the Inspector General, and millions of vocal, involved customers.

Background

- Years ago, politics played a large part in how the Post Office Department was run. In the 1960s, mail service deteriorated and the Post Office nearly collapsed from years of neglect. In 1971, Congress required the Postal Service to be self-supporting and gave postal management the authority to direct its own operations. Thanks to these far-reaching changes, the Postal Service is now much more efficient and customer-focused.

- The Postal Reorganization Act carefully balanced these freedoms with unique and substantial forms of oversight and accountability.

- By law, the Postal Service must answer to two committees in the House and two committees in the Senate. This alone represents substantial oversight.

- The nine Governors, appointed by the President and confirmed by the Senate, direct the Postal Service. Their major responsibilities include

setting postage rates, appointing the Postmaster General, and approving all large expenditures.

- The Postal Rate Commission, whose five members are also presidential appointees, recommends postage rates and classification changes to the Governors. Of all the postal administrations in the world, only the United States Postal Service has a separate federal agency overseeing its rates and mail classifications.

- A host of other government agencies – from the Office of Personnel Management to the Treasury Department – regulate us in some fashion.

- The Postal Service, a government institution that touches the lives of every American, faces more public scrutiny than perhaps any other organization in the nation.

  -- Customers and local communities have a significant voice in how the Postal Service does business. Mailers actively work with postal managers and employees and exert considerable influence on postal operations.

  -- The Postal Service is subject to nearly constant review by the General Accounting Office, the USPS Inspector General, and a host of public and private coalitions.

UPS RHETORIC: The Postal Service keeps secrets, deliberately hiding financial and product information.

REALITY: No organization in America is forced to divulge more commercially sensitive information than the Postal Service. UPS is the one with something to hide. It wants open access to our business while it carefully guards its own trade secrets. That way, it will be even easier to increase its virtual monopoly on the parcel market.

Background

- The Postal Service is forced to reveal extensive information about its products and services during rate-proceedings and oversight by Congress, the Governors, the GAO, and other watchdogs. We must provide commercially sensitive information about new products even before we launch them. What private company does the same?

- To support a rate case, we give the Postal Rate Commission reams upon reams of costing and operational information.

- Competitors like UPS would like us to share every scrap of information. In fact, UPS regularly intervenes in rate proceedings and takes

advantage of every opportunity to gain data through interrogatories. Its goal is not to help America but to increase its own near monopoly on parcels.

UPS RHETORIC: Only the Postal Service sets postage rates. No one can stop it from charging whatever it likes.

REALITY: It took us nearly two years to change the price of a stamp by one penny. Since 1995, UPS has raised its prices a total of 15-20 percent and made nearly $5 billion.

Background

- The Postal Service is a lot like any other enterprise that wants to stay strong in a highly competitive world. We're doing everything we can to keep our rate increases to a bare minimum. In fact, our last price adjustment, the first in four years, averaged just 2.9 percent, less than one third the rate of inflation.

- Postal management doesn't set postage rates. The nine presidentially-appointed Governors do. The Postal Service has to ask the Governors' permission just to file for new rates with the Postal Rate Commission.

- In all but the rarest of circumstances, the Governors must adopt rates exactly as received from the Postal Rate Commission, an independent federal agency. The PRC is an expert body that spends as much as a year reviewing costing and financial data and hearing evidence and opinions from every interested party (including competitors).

- The process also makes it difficult to overturn a PRC decision. By law, the Governors can modify PRC decisions only by unanimous vote and only if they find that revenues would not cover costs. In 29 years, this has only happened once in a major rate case. Even then, the Governors' changes had to be accepted by a court.

UPS RHETORIC: The Postal Service sets the prices of its competitors, forcing private companies to charge twice as much as the Postal Service for two-day letter delivery.

REALITY: UPS charges whatever they think they can get away with. That includes surcharges and steep prices with plenty of profit margin. In fact, once the Postal Service started advertising its prices for two-day delivery, UPS suddenly lowered theirs.

Service began to make prices known publicly through advertising that the private sector prices began to come down.

- The bottom line is this: a limited monopoly that protects our public service responsibilities to the nation is working. Any further change would need to result from comprehensive reform and not unilateral Postal Service concessions that would enable private firms to pick the low hanging fruit of the nation's mail and jeopardize universal service to every American.

UPS RHETORIC: The Postal Service offers services already provided by the private sector, forcing small businesses to close.

REALITY: The Postal Service was here first. Now, it's our business that's being seriously eroded by aggressive shipping and express businesses, commercial retail operators, even foreign posts.

Background

- The Postal Service – not its competitors – was the first to create a national parcel post system, offer expedited products, and provide postal retail services. Thanks to our competitors' many marketplace advantages, we have long since lost the dominant market share in key competitive markets.

- Few, if any, small businesses have closed because of the Postal Service's recent success. In fact, the communications marketplace is booming.

- UPS has posted profits of nearly $5 billion in the last four years and managed to grow its business several billion dollars despite annual price increases of 3-4 percent.

- FedEx has bought several key competitors, formed a $16 billion holding company called FDX, and seen its stock price more than double in the past three years.

- The Internet is fueling a golden age for package and express deliveries and the industry that supports it. In the twenty-first century, there will be plenty of room for everyone.

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b) *How do you respond to charges from UPS that the Service uses its monopoly "as a club against the private sector?"*

Allegations that the Postal Service uses its monopoly "as a club against the private sector" are false. Under the provisions of the Postal Reorganization Act, Postal Service proposed rates and fees for all mail products and services are subject to a lengthy examination through an open hearing process before the Postal Rate Commission. The United Parcel Service is an active participant in this process and has demonstrated an ability to protect UPS's commercial interests. The PRC ratemaking process ensures that (1) the rates and fees for all products cover their attributable costs and (2) no cross-subsidization occurs. Therefore, the Postal Service cannot be viewed as competing unfairly through inappropriate pricing with private sector service providers.

The Postal Service provides a vital service for millions of Americans who live in rural or remote areas of the United States where private sector service providers such as UPS find no advantage to provide service or else charge significant surcharges to those customers. Under its universal service mandate, the Postal Service bears the burden of serving these customers, regardless of cost, at the same reasonable rates as are charged any other customer.

52. United Parcel Service successfully lobbied a number of state legislatures to pass resolutions calling on Congress to rein in the Postal Service's "monopoly."

a) *What impact if any, have these resolutions had on the Service? Have any of these state resolutions led to actions or prohibitions, which interfered in any way with the ability of the Service to provide honest and efficient mail service to the country?*

To date, some 15 state legislatures have considered 26 separate versions of the resolution. Resolutions have been adopted in seven states. The resolutions themselves have had no direct impact on the Postal Service's ability to fulfill its statutory obligation to provide postal services "to bind the Nation together." Still, the Postal Service is concerned that the resolutions perpetuate misrepresentations about postal operations and may lead state officials, and their constituents, to form inaccurate views of the Nation's mail system.

b) *What initiatives has the Service undertaken to keep legislators informed as to the nature and scope of the Postal Service's commercial and public service activities?*

The Postal Service is carefully tracking and monitoring the progress of the sponsored resolutions. Postal Headquarters works closely with local postal officials to help ensure state legislators have access to accurate

information about the Postal Service and its statutory obligations and activities, and to respond to any questions they might have.

53. Concerns have been raised regarding cost accounting and the financial performance of e-commerce products. The Service has testified that it has made some improvements in its cost accounting for e-commerce products. Governor Rider testified that e-commerce products will individually cover their cost.

a) *Please describe the cost accounting systems that will be used to identify the cost for each e-commerce product and service.*

We identify the cost for each e-commerce product and service using cost information from our current accounting system (the Postal Service Financial Reporting System). This data is supplemented by transaction data supplied by our vendors, when appropriate. We now assign individual finance numbers or separate General Ledger Accounts so that costs can be tracked by eCommerce product.

In the future, if part of the product cost results from use of postal labor, we would use our existing USPS product costing systems (e.g., the In-Office Cost System) to provide data.

b) *Will the cost accounting system capture the attributable and incremental costs for each e-commerce product?*

Our General Ledger System does not explicitly report attributable and incremental costs for any products. As discussed in Question 5(c), this fiscal year, we have initiated a study to develop a method for measuring attributable and incremental costs.

c) *How many customers have signed on to the E-BillPay service? If possible, please indicate how many of those customers are postal employees.*

d) *How many bills have been presented through the E-BillPay service?*

e) *How many bills have been paid through the E-BillPay service?*

f) *Has the Service raised any revenue from the E-BillPay Service yet, either from bill presenters or bill payers? If so, how much?*

g) *Does the Postal Service believe that offering E-BillPay for a six-month period for free will help it determine the ultimate market demand when it begins to charge for the service? Please explain the purpose behind the offer and how the Service will use the results in projecting revenues.*

h) *Does the Service's agreement with CheckFree or any other vendors in support of E-commerce activities include any revenue guarantees? If so, what are the amounts of those guarantees for each year of the respective contracts? How has the Service designed such agreements to minimize the financial risks?*

The detailed information mentioned in question 53(c)-(h), concerning our eBillPay service and our relationship with our partner, CheckFree, is confidential business information of both the Postal Service and CheckFree, a private firm. Public disclosure could compromise the business relationship that the Postal Service has with CheckFree. In addition, such disclosure would likely make the Postal Service an unattractive partner with which to do business, and would make it difficult for the Postal Service to continue to remain competitive in a business environment.

54. The Chairman has raised concerns regarding the impact of the raising costs of processing flats and the impact it has had on the proposed rate increase for periodicals.

a) *Please update the Subcommittee on the Service's efforts to identify and implement programs and process changes to reduce the cost of flats in general and periodicals in particular.*

In 1998, the Postal Service partnered with Periodicals industry associations (Magazine Publishers of America and American Business Media) to conduct a study of operational factors that influence costs of Periodicals processing in both mailer and USPS processes, and to identify measures that could be taken to drive costs out of the system for mailers and the Postal Service.

In a joint report issued in spring 1999, the partnership effort identified fifteen initiatives to be executed by the mailers and the Postal Service. Highlights of the actions taken are identified here:

1. Mailer preparation standards should more nearly match how the mail is actually processed.

In Fall, 1999 a new list was published to enable mailers to enter Periodicals and Standard flats mail "deeper" into the system, in most cases at the facility in which the mail is processed. This reduces the expenses associated with the USPS having to transport the Periodicals mail to the actual processing facility. In January 2001, more new mail preparation requirements will ensure that flat-shaped mail is prepared in ways that will reduce USPS rehandling costs. For example, carrier route presort mail will be required to be in Line of Travel (LOT) sequence. Other measures will

take place then to encourage more mail to be entered deeper in the processing system. For example, both bar-coded and non-bar-coded flats will be on the same pallet or in the same sack. In January, Address Management System's city-state product will show mailers where incoming secondary flats processing occurs in plants or in post offices. Changes will be reflected in the DMM and AMS Dropship product in early 2001 to indicate the location where mail is processed, identified by class, shape, and presort level. There is now consideration of further measures for possible implementation in 2001.

2. Mail should be bundled and containerized to minimize costs.

Preparation rules have been revised to protect the integrity of pallets to the SCF (local plant) level, and there is a permanent allowance for the 4-tier stacking of pallets. Five-tier stacking is being tested but there appears to be some safety concerns and little mailer interest in testing this further.

3. Mailers and the USPS should assure/encourage good addressing quality to reduce rehandling costs.

There are a variety of systems being used to ensure good addressing and general mailpiece quality. They include equipment to evaluate the accuracy of mailer bar coding, addressing, and make-up. In addition, local plant operating procedures have been modified to emphasize maintenance of mail readability logs to focus on problem areas.

4. Entry and acceptance requirements should be communicated and enforced. Problems with irregularities should be communicated not only to the printer, but to the publisher as well.

There have been actions to develop and implement a wide range of awareness programs aimed at increasing employee knowledge of entry and acceptance policies and the requisite procedures. In addition, new software to assist business mail acceptance units in acceptance of prepared mailings is in place. This features a "periodicals mailing history" so that repeat problems can be identified, consistent with the desires from the periodicals mailing community to focus on those mailers who repeatedly don't comply with requirements, and thereby drive up costs.

In addition, national periodicals training that focuses on mail preparation and rates eligibility has been conducted. This was offered to mailers, postmasters and acceptance clerks. As a result, over 10,000 employees and a large number of mailers have been trained in bulk mail acceptance policies in the last two years.

5. The Postal Service's flats operations plan should be further developed and communicated.

The Postal Service has initiated several actions to further define and communicate the long-range plan for handling flat-size mail. Key strategies include mailer interface, increased utilization of automated equipment to reduce processing costs, and faster deployment of next-generation automated sortation equipment to augment that already available.

The changes in palletizing and other requirements enables mail to be entered as deeply into the system as possible, using bundles and mail containers that reduce the opportunity for breakage and the added costs that come with it. Deeper entry, especially destination entry, enables the mailer to retain closer control over when the mailing will be delivered at the same time that the mailer reduces costs through worksharing.

The "Breakthrough Productivity" initiative focuses on increased utilization of automated sortation equipment, including flat sorting equipment, and on achieving the throughput that generates the cost savings that is needed to slow the rise in flats costs in the USPS. The increased utilization and throughput on machinery, plus the efforts to move mail from manual to automated processes, has seen results. In the 1.5 years since the Joint Industry-USPS Operations Review Team issued its report in 1999, the bottom-line flats productivity (all flat mail whether worked on automation or manually in the plant) has increased about 6.5 percent in USPS plants.

During the same time, the pace of deployment of automation has quickened. Automatic feeders have been installed on current flat sortation equipment, and the Advanced Flat Sorting Machine Model 100 has been deployed at an increased rate, putting almost 400 of the AFSM 100s in plants faster than originally planned. These machines are capable of processing mail much faster than other automated/mechanical flat sorters, and the focus is on driving more mail onto these machines to further increase the productivity of the entire flats system.

6. Processing mail classes separately is of questionable value, and where it saves money for the mailer and the USPS and doesn't harm service, classes should be mixed in processing.

As a result of the recommendation made by the team, Processing Operations issued a clarification to policy that allows local plant managers to mix Periodicals with other classes of mail that are destined for delivery within that plant's service area. This is allowed so long as the mixed mail can maintain the service requirements of the highest class of mail in that mix.

In the past, the relatively small volume of Periodicals class mail, when compared to Standard A, meant that the larger volume Standard A was more suitable for automated processing. This allows the processing facility to put increased volumes of Periodicals class mail on automation by mixing it with other classes that have greater volumes available to process.

7. Improved bundle preparation by mailers and improved material handling by the Postal Service can reduce bundle breakage, which appears to increase costs significantly.

The USPS and Mailers' Technical Advisory Committee (MTAC) jointly sponsored a follow-up analysis on precisely what size bundles, and in what containers, tended to break, requiring costly individual piece sortation. The study has generated recommendations to industry on measures to prepare bundles to better withstand processing pressures, and to the Postal Service on how best to minimize the physical pressures on the strapping material that causes bundles to break.

The USPS has modified equipment in instances where such changes would reduce the opportunity for breakage. In addition to equipment modifications, there have been process changes to minimize the opportunity for bundle breakage. Plants have been instructed to "shake" mail from pallets, rather than dumping them with the full force of the container felt by the bundles on the top of the pallet when the pallet is inverted onto a conveyor belt.

8. Operations managers in the USPS should be focused closely on the importance of efficiently managing processes and postal equipment.

Processing Operations in USPS Headquarters has issued a guideline (Publication 128) describing how to focus the operational resources to minimize flats costs. The publication is available to operating managers on the USPS internal website, and field visits by Processing Operations are conducted to ensure that the plants are complying with the requirements of the strategy.

The best indicator of the success of the effort is the increased productivity, previously referenced in number 5 above.

9. Cost reduction opportunities may be realized by better utilization of transportation cubic capacity and by reducing extra service trips that are authorized to improve service in Periodicals mail.

Extra trip service has been reduced substantially since the publication of the joint report. In addition, a focus on minimizing the use of air transportation when surface transport can meet service standards has reduced the cost of transportation of Periodicals and Standard Mail further.

10. Annex operations are used to deploy additional equipment and accommodate increased mail volume, but they may result in additional costs that fall disproportionately on Periodicals mailers.

A study of annexes identified that there are very few annex operations that are "Periodicals Only," with most annexes used to process multiple classes of mail based on the process involved, not the class. To ensure that Periodicals are not singled out in the future, instructions have been issued to clarify that decisions about what should be moved to an annex should be based on the process, not the class of mail involved.

11. The automated flat sorting equipment can be used more effectively.

There have been specific throughput, productivity, and utilization targets established for the new AFSM 100 automated flat sorter to ensure that the cost-reduction potential of this newest generation of equipment is fully realized. The results to date are reflected in the 6-plus percent improvement in bottom-line flats productivity that has been realized in the last year and one-half since the publishing of the joint report.

In addition to ensuring the best utilization of new equipment, there is a commitment to improve the effectiveness of current equipment. One illustration is the initiative to purchase and install automatic feeders on current flat sorters to increase the throughput and productivity of the machines.

12. There may be interclass cost impacts that require further study. What may be best for USPS Operations "bottom line" may not be best for Periodicals.

A recent study by the Postal Service, in response to this issue, found that the higher percentage of sorting done manually for Periodicals is accounted for by Periodicals mail characteristics (non-machineability, service and entry times) and is also addressed by the test year savings from the AFSM 100. Annex processing of Periodicals does not appear to have notable cost consequences. This suggests that no modification to Postal Service costing is warranted.

The quantitative analysis confirms the observations of the task force, that a higher percentage of piece sortation is done manually for Periodicals than for Standard A, Non-ECR flats. The Analysis memo (page 2), however,

suggested characteristics of Periodicals, which would lead to more manual sortation, such as being less machinable and having more demanding service requirements. The quantitative evidence confirms piece characteristics as a factor leading to more manual sorting in two ways. First, the percentage of flat pieces with a barcode was higher for Standard A, Non-ECR than for Periodicals. Greater prebarcoding would be expected to lead to more FSM processing for Standard A, Non-ECR. In fact, prebarcoded Periodicals flats received significantly higher percentage of FSM sortation than non-prebarcoded Periodicals flats. Second, a comparison of sorting for weekly or higher frequency Periodicals to the less time sensitive, lower frequency Periodicals shows that the latter receive significantly more FSM sorting. Finally, the concern that FSM capacity shortfalls might raise inter-class cost issues, has been alleviated by the test year consideration of the deployment of the new AFSM 100.

13. An immediate step can be taken to publicize and emphasize that cost and service are both important to mailers.

Last summer, the current Chief Operating Officer, Jack Potter, began a series of articles in the electronic biweekly publication for operations managers, Operations2000. He repeatedly focused on the need to control flats-size operations costs, and declared FY2001 to be the "Year of the Flat."

A number of other internal communications have emphasized the importance of controlling flats costs, and the focus is ongoing.

14. Cost attribution methodologies should be reviewed in light of operational observations.

These are the subject of ongoing discussions between the USPS and the mailing community, and were part of the R2000-1 deliberations.

15. The rates structure for Periodicals mail should be reviewed to ensure that it is consistent with the overall periodicals processing strategy and induces appropriate mailer behavior.

This, too, is an ongoing effort between the parties.

In summary, there have been a number of initiatives implemented to improve the way that mailer makeup and entry of mail can interface with postal operations to stop the rise in Periodicals costs. There have also been unilateral actions by the Postal Service to increase utilization, throughput, and productivity of the automation equipment used to process the mail, and discussions with mailers about how to ensure that the

costing system represents the true costs incurred are ongoing and substantive.

The early indicators point to results being achieved: The overall flats productivity in USPS plants is up more than 6 percent in the year and one half since the report was issued. More equipment is being deployed now to increase that productivity even more.

The impact of the joint USPS-industry effort is also demonstrated in the additional cost reductions that were identified after the original R-2000-1 rate-case filing. The initial filing included $45 million in recognized cost reductions in mail distribution for Periodicals that the Postal Service expected to achieve. After the filing, these additional actions by the USPS in concert with mailers identified $66 million more in cost avoidance. This is an additional reduction to base of more than three percent, and it was accompanied by a reduction of about $137 million as a result of costing methodology revisions. The cost reductions and the methodology changes were sufficient to keep the rate increase for Periodicals at a single-digit level in the Postal Rate Commission's recommended decision.

The effort will continue in the future, with an ongoing joint activity to explore further opportunities to drive costs from the system.

55. In the 1993 nationwide restructuring the Postal Service was found to have improperly circumvented the reduction-in-force (RIF) regulations. In order to come into full compliance the Service was required to restore demoted employees to full saved grade and saved pay. The potential savings associated with the restructuring were not realized. In addition, when the "early out" option was extended to bargaining employees there was a significant loss of essential craft employees, particularly carriers. This led to service failures and ultimately to re-staffing of field positions. Again, savings from the early out retirements were not captured. Some have argued that the restructuring fell short of its goal due to errors in executing the details. The Subcommittee is interested in how the Service has learned from this experience.

a) *Has the Postal Service consulted with the Office of Personnel Management (OPM) to clarify the RIF rules for future restructurings?*

The Postal Service has consulted with OPM to clarify rules and regulations. After the Postal Service was found to have improperly circumvented the RIF regulations during the 1992-1993 restructuring, the Postal Service took steps to come into compliance with RIF rules as they apply to the Postal Service.

Following the August 1994 decision by the Merit Systems Protection Board (MSPB), the Postal Service created a "RIF Compliance Taskforce" whose

goal was to comply with the MSPB ruling. This taskforce had to provide a remedy by April 1995 to preference eligibles who were demoted as a result of the 1992-1993 restructuring. During this undertaking, members of the taskforce consulted with OPM on a regular basis regarding RIF regulations and their proper interpretation. The taskforce also consulted with Department of the Navy representatives regarding guidance on the practical implementation of the regulations. The taskforce was successful in meeting its goal.

A small core group of the taskforce remained active after the project ended in April 1995 to make the Postal Service "RIF ready" for future restructurings. This group consulted with OPM and Navy to develop policies, processes, and an automated system to handle future restructurings. This work was completed in December 1995. At that time a RIF Compliance unit was created within the Employee Resource Management group. This unit is still active today.

The following are RIF actions taken by the Postal Service since 1995.

Competitive Area	Action	RIF Effective
Philadelphia MFO	Closing	08/03/1996
Erie, PA Post Office/Plant	Reorganization	09/14/1996
Training HQ	Reorganization	11/08/1996
Diversity HQ	Reorganization	01/03/1997
Fayetteville, AR Post Office	Reorganization	01/18/1997
Albuquerque, NM Post Office	Reorganization	02/15/1997
Consumer Advocate HQ	Reorganization	03/29/1997
Boston Proc/Dist Center	Reorganization	05/24/1997
Information Systems HQ	Reorganization	11/06/1998
Chicago, IL MTEC	Closing	01/01/1999
Washington, DC MTEC	Closing	08/27/1999
Hayward, CA REC	Closing	09/04/1999
Knoxville, TN REC	Closing	11/13/1999
Boston, MA MTEC	Closing	12/17/1999
Gary, IN REC	Closing	01/22/2000
W Nassau, NY REC	Closing	02/11/2000
Davenport REC	Closing	03/24/2000
Nashua, NH REC	Closing	04/01/2000
Des Moines, IA REC	Closing	04/07/2000
Jacksonville, FL REC	Closing	05/27/2000
York, PA REC	Closing	06/10/2000
Laredo, TX REC	Closing	06/16/2000
Madisonville, KY REC	Closing	06/24/2000
Lumberton, NC REC	Closing	07/14/2000
Newport News, VA REC	Closing	07/22/2000
Louisville, KY REC	Closing	08/05/2000
McAllen, TX REC	Closing	08/05/2000

Birmingham, AL REC	Closing	08/11/2000
Tulsa, OK REC	Closing	08/19/2000
Kalamazoo, MI REC	Closing	08/19/2000
Antioch REC	Closing	08/25/2000
Lehigh Valley, PA REC	Closing	09/09/2000
Lynchburg, WV REC	Closing	09/16/2000
Chula Vista, CA REC	Closing	10/21/2000

Each of these closings or reorganizations was conducted in compliance with the RIF regulations.

b) *Has the Postal Service been able to develop downsizing plans that will protect the rights of preference eligible employees? Please describe such plans.*

Yes. After downsizing plans have been developed and approved, there are processes in place to analyze the impact on employees. These processes take into account the rights of preference eligible employees. The plans are described in detail in ELM 354.2.

c) *Under the current RIF rules can the Service offer early outs and reduce staff on a selective basis? For example, PCES, EAS, nonbargaining employees, Headquarters staff, Area staff, all staff by a geographic area like ZIP Code, etc. Please explain.*

To minimize the number of employees potentially affected by involuntary separation or demotion, the Postal Service has received approval from the Office of Personnel Management (OPM) under its Voluntary Early Retirement Authority (VERA) to offer voluntary early retirement to certain nonbargaining employees at headquarters, headquarters-related facilities, and area offices.

VERA can be offered to organization units, occupation codes, geographic area, or any combination of these factors. VERA cannot be offered based on personal factors.

The Postal Service has elected to offer the voluntary early retirement option only to those competitive areas that are currently in a reduction-in-force (RIF) avoidance period. Voluntary early retirement offers within a competitive area will be limited to those employees who occupy "covered" positions that are defined as those that are directly impacted by the staffing reductions or demotions or can potentially serve as placement positions for impacted employees.

d) *What percent of bargaining employees are currently protected from layoffs?*

The Postal Service currently has 700,146 bargaining unit employees. The American Postal Workers Union (APWU) has 338,279 members all of whom are layoff protected until the expiration of the current national agreement on November 20, 2000. The remaining 361,870 bargaining unit employees are protected from layoff upon completion of six years of continuous service and having worked at least 20 pay periods during each of the six years.

56. Last year you noted that productivity-enhancing investments such as automation often reduce TFP in the near-term, as the capital investment occurs up front, while the savings are realized over time. As such, this would imply that TFP as currently constructed does not properly tie inputs to outputs at least with regard to capital investment.

a) *Has the Postal Service considered an adjustment to the TPF measure that would better associate capital investment and the relevant output measures? If not, are there better ways for the Service to separately measure the impact of capital investments on productivity particularly if those productivity gains are realized "over time?"*

The Postal Service has not considered an adjustment to the TFP measure. The Postal Service does not believe there is an error in this measure. TFP is designed to measure the change in the ratio of outputs to inputs. TFP, as currently designed, accurately measures these changes. As such, it will accurately measure when inputs increase faster than outputs. The Postal Service's note regarding capital investments simply recognizes the fact that there are situations where inputs can rise more rapidly than outputs. One such situation is during periods of rapid capital expansion or major capital investments. This pattern will impact productivity in the short term, as the investments are made to provide a return over time. A lumpy pattern of investment is one factor that can affect TFP growth in the short run.

57. Last year you noted that the Service faces operational constraints and challenges that are not encountered in the private sector. You claim that these public service obligations constrain the Postal Service's ability to generate productivity improvements.

a) *Doesn't TFP include the number of delivery points and post offices in the measure of output and, therefore inherently, reflects the public service burdens that the Service must incur? If not, please discuss how TFP can and should be adjusted so that the Postal Service productivity can be compared to the private sector productivity on an equal basis.*

The number of delivery points is included in the output measure. The number of post offices is not considered a postal output, but their number is part of capital inputs which is consistent with private sector productivity.

A public service obligation not captured in the TFP measure as it is benchmarked against private sector productivity is the commitment to make every delivery every day regardless of the amount of mail for each delivery. This public service obligation impacts the comparison for TFP growth with private sector productivity growth. Currently, there are no standards in place to determine the value of the impact on productivity. If there was a consensus as to the cost of this public service obligation, refining the benchmark from a simple comparison to MFP may be possible.

b) *You have stated that the Service needs to achieve breakthrough productivity. How much does the Service expect productivity to improve in fiscal year 2001? Over the long-term, how does the Service expect to achieve breakthrough productivity?*

Based on preliminary estimates of FY 2000 performance, the operating plan for FY 2001 will result in a 0.7 percent growth in TFP. Over the long term, the Postal Service will achieve breakthrough productivity through cost reduction programs in mail processing operations such as flat sorting, delivery barcode sorting, and materials handling; by optimizing the transportation and purchasing functions; and through the application of performance management techniques, the identification and distribution of best practice tools, and implementation of standard operating procedures.

58. The Subcommittee offered suggestions for improving the draft 5-year Strategic Plan. We were particularly concerned with the Voice of the Employee goals and indicators.

a) *Has the Postal Service established additional quantifiable goals for improving employee relations?*

b) *What part does the "The Voice of the Employee" play in the Service's plans to improve performance?*

The "Voice of the Employee" is a critical part of the Postal Service's plan to improve performance. Improvements in workforce management and workplace relations are essential to reaching the goals of affordability and growth.

In August 2000, the Postal Service received the Report of the Commission on a Safe and Secure Workplace, the result of a two year independent study of key workplace issues. The findings of the study reinforced the suggestions of the Subcommittee on the need to establish better, more quantifiable Voice of the Employee goals.

The Postmaster General announced that the Postal Service would share the findings with relevant postal stakeholders, and would work with unions,

management associations and others to review, adapt and implement the recommendations. This review will result in changes to the current Voice of the Employee goals and indicators.

The recommendations of the commission included:

- *Increased training to develop better interpersonal skills of managers.*

Currently, the Postal Service has a goal of at least 4 hours of workplace relations training for all EAS employees, with an additional 4 hours for Level 15 and above, and an additional four hours for other EAS employees. The requirement for workplace relations training is likely to be increased.

- *Strengthen incentives to focus managers on the workplace environment In addition to financial performance, operational goals, and customer Satisfaction.*

The weight of workplace relations goals in current incentive programs is likely to be increased, and additional incentives may be developed. The Voice of the Employee survey index is already part of the variable pay program for postal managers.

- *Agree on a system of financial performance incentives for craft (union) employees.*

The Postal Service will investigate methods of linking unit performance, merit and variable pay programs, and extending them to craft employees through agreements with the unions and management associations.

- *Overhaul the dispute resolution process*

The REDRESS program is a recently introduced program to address this issue. The first goal was to ensure the widespread availability of the program. The Postal Service will investigate and develop specific quantitative measures of effectiveness.

There may also be other relevant indicators that are developed as a result of the commission study and the subsequent review with the unions and management associations.

The Postal Service already has very specific, quantifiable measures and indicators for the safety program. As directed by Congress, the Postal Service will be using the illness and injury rate measures and indicators required by the federal Occupational Safety and Health Administration (OSHA). The Postal Service will continue to use Motor Vehicle Accidents per million miles as an indicator.

The Postal Service also tracks, in detail, the demographic profile of its employees at all levels. These data serve as the baseline for evaluating requirements and performance for executives and managers on their support for diversity goals.

The Voice of the Employee survey index is a "capstone" or summary of the varied sub-goals. The survey tracks six basic questions that are deemed key to improving the workplace environment:

- **I am satisfied with the recognition I receive for doing a good job**
- **People in my work unit are held accountable for doing their job well**
- **In the past month, I have personally been sexually harassed by a postal employee**
- **I feel excluded from my work unit because of my race, ethnicity, gender, disability or any other factor not related to work performance**
- **Rate your immediate supervisor on: treating me with dignity and respect**
- **Rate your immediate supervisor on: ability to communicate with employees**

As noted before, performance on the survey index is part of the variable compensation for postal managers and executives.

c) *What is the status of the REDRESS program? What indicators are used to measure its success? Has REDRESS been effective in lowering the number of EEO cases filed against the Postal Service?*

The REDRESS™ program is now fully integrated into the Office of Equal Employment Opportunity within the Postal Service. No changes have been made to the core program, which provides for outside neutrals to mediate employee disputes raised in the context of the Equal Employment Opportunity administrative process. We continue to employ the transformative model of mediation with emphasis on providing employees the communication skills, tools and training needed to learn to more effectively listen and respond to one another.

Currently, success is measured by participation rate. We have set our participation rate goal at 70%. The participation rate reflects the percentage of the people requesting counseling who elect to mediate their dispute when that option is offered to them. Our goal is to offer mediation to at least 90% of all people seeking EEO counseling. Some cases are

deemed by the Dispute Resolution Specialists to be inappropriate for mediation. These cases include, for example, allegations involving criminal conduct or quid pro quo sexual harassment. In FY2000, we offered mediation to 93% of all people who sought EEO counseling.

73% of those offered mediation in FY2000 elected to participate in the mediation process. Not all such cases are actually mediated, though, for a variety of reasons. For example, some cases are settled, withdrawn or cancelled prior to a scheduled mediation. We believe that participation rate encourages employees to bring their disputes, which largely stem from communication problems, into mediation, where the employee and manager involved are able to develop and practice better communication skills face to face. Eventually, we would expect that as employees and managers learn from their experience in mediation, they will apply those skills in everyday settings, and the workplace environment will improve for both of them.

In FY2000, the Office of Equal Employment Opportunity and the Manager, Workplace Environment Improvement, are working together to determine whether it is possible to develop a metric for REDRESS™ linked to employee satisfaction indicators, such as Voice of the Employee scores, low sick leave levels, low volumes of grievances and other complaints, low rates of workers' compensation claims (especially stress-related), or low overtime usage. We are also monitoring a phenomenon that we observe, which is the "premediated closure rate." Since the roll out of the REDRESS™ program, we have found a steady increase in the percentage of cases that are scheduled for mediation but in which the parties are able to reach a resolution or the request is unilaterally withdrawn by the employee before the mediation actually occurs. In FY2000, this occurred in over 1500 cases.

We hope to supplement participation rate with other workplace environment improvement-related goals and indicators after validating observable correlations. Survey data from the recent United States Postal Service Commission On A Safe And Secure Workplace as well as data from the Voice of the Employee Survey, the Equal Employment Opportunity data tracking system and the records of the REDRESS™ program are being analyzed and interpreted in this effort.

In the meantime, we continue to see declines in the number of EEO cases filed against the Postal Service. In FY2000, there were 25,086 requests for counseling in the Equal Employment Opportunity administrative process in the Postal Service. This was a decrease of 1,425 from the 26,511 requests for counseling we received in FY1999. In FY2000, only 41% of all requests for counseling resulted in formal complaints being filed. That percentage

is referred to as the "flow through" rate of complaints to the formal stage of the process. In FY1999, the flow through rate was 46%.

The impact of mediation on flow through rate is significant. In FY2000, of the 25,086 requests for counseling, 11,261 were mediated and 13,825 were not mediated. Of the 11,261 mediated cases, only 2,545 (23%) "flowed through" to the formal stage of the process. Of the 13,825 counseling requests that were not mediated, 7,912 (57%) "flowed through" to the formal stage of the process. Overall, there were 10,457 formal complaints filed in FY2000, which represents a 15% decrease from the 12,206 filed in FY1999. We believe that these data strongly support the conclusion that REDRESS™ has been effective in lowering the number of formal EEO complaints filed against the Postal Service.

At the same time, because REDRESS™ is so effective in resolving disputes, and because it is presently only available to employees who seek counseling from the Office of Equal Employment Opportunity, we recognize that some employees may be encouraged to seek EEO counseling as a means of accessing REDRESS™. Therefore, although requests for counseling have decreased from FY1999 in FY2000, we would not be disturbed if we found that there were no decrease in that number or even if the number were to increase. Our emphasis is on bringing employees and their managers face to face to resolve their disputes through clarification and recognition.

d) *How many EEO disputes were mediated under REDRESS in FY2000 and which percent of those cases were closed?*

In FY2000, we mediated 11,261 cases in REDRESS™, and only 2,545 of those cases proceeded to the formal stage of the administrative process. This represents a 77% rate of closure for all mediated cases.

59. The Service has stated that it must look to the private sector to determine its wage strategies. The Service defines moderate restraint as postal wage growth as equal to the ECI-1 percent per year.

a) *For fiscal years 1998, 1999 and 2000 how did the postal wage growth for each of the union contracts (NALC, APWU, NRLCA and NPMHU) compare to ECI-1?*

	Percent Annual Change By Year[1]		
	FY 1998	FY 1999	FY 2000
APWU	2.4%	2.7%	3.8%
NALC	2.1%	0.6%	4.5%
NPMHU	1.8%	2.2%	4.6%

[1] Postal Service bargaining unit wage growth is based on straight-time hourly rates obtained from the National Payroll Hours Summary Report (YTD AP 13 each year).

NRLCA	1.7%	1.0%	3.8%
ECI-1%[2]	3.0%	2.5%	3.0%

Postal Service wage growth is based on straight-time hourly rates obtained from the National Payroll Hours Summary Report (YTD AP 13 each year). ECI-1% is based on the 4-quarter average change in the private industry wages and salaries employment cost index less 1%. In order to be consistent with the postal fiscal year that begins in September, ECI growth for each fiscal year starts at quarter 4 (December ECI) and ends with quarter 3 ECI (September ECI) data.

b) *For fiscal years 1998, 1999 and 2000 how did salaries and benefits growth for Postal Career Executive Service employees compare to ECI-1?*

	Percent Annual Change By Year		
	FY 1998	FY 1999	FY 2000
PCES[3]	3.1%	1.6%	3.2%
ECI-1%[2]	3.0%	2.5%	3.0%

c) *For fiscal years 1998, 1999 and 2000 how did salaries and benefits growth for Executive and Administrative personnel compare to ECI-1?*

	Percent Annual Change By Year		
	FY 1998	FY 1999	FY 2000
EAS[3]	1.1%	0.6%	3.2%
ECI-1%[2]	3.0%	2.5%	3.0%

60. The Subcommittee has been made aware of and is deeply concerned about what appears to be a controversial procurement for the Postal Service's Direct Marketing/Sales Support advertising contract. We are told the incumbent – DraftWorldwide – was prohibited from participating in the final solicitation round of competition due to their refusal to provide the Service with confidential information. It is DraftWorldwide's position that disclosure of such information would have been a violation of their contractual relationship with their clients. The Subcommittee has also been informed that DraftWorldWide is the incumbent, and is the largest and most successful company in direct marketing. In fact, the Service's own research contractor –

[2] ECI-1% is based on the 4-quarter average change in the private industry wages and salaries employment cost index less 1%. In order to be consistent with the postal fiscal year that begins in September, ECI growth for each fiscal year starts at quarter 4 (December ECI) and ends with quarter 3 ECI (September ECI) data.

[3] Postal Service PCES and EAS salary growth is based on average salary obtained from the Position Schedule National Summary Report (Postal Quarter 4 each year). In order to provide a relevant comparison and to be consistent with the information requested in 59a., benefits were specifically excluded from the PCES and EAS data.

Great Lakes Marketing – independently ranked Draft as one of your best advertising contractors. Mr. Davis and I have requested that the Inspector General investigate this matter but the Subcommittee has a few immediate questions.

a) *Did Draft address this issue and offer an alternative means for the Postal Service to acquire this information?*

DraftWorldwide did not address the confidentiality issue during the procurement process, although it mentioned in its second pre-qualification submission that it felt it was legally precluded from releasing sensitive client information. The first time Draft directly raised the confidentiality issue was in a letter addressed to the Contracting Officer on July 10, 2000, three months after Draft was eliminated from the solicitation process. In that letter, Draft stated its concern with providing confidential client information to the Postal Service during the second stage of pre-qualification. Draft offered to set up meetings between the Postal Service and its clients to enable the Postal Service to ask its clients directly for the information.

Notably, Draft did not raise this issue in its protest letter dated September 1, 2000. In addition, Draft was not prohibited from participating in the final solicitation due to its refusal to provide the Postal Service with confidential information. Draft was not pre-qualified to participate in the solicitation for a number of reasons, only one of which was the general nature of its submission.

Draft had opportunities during the pre-qualification phase to ask questions regarding the information requested. Draft did not take advantage of the opportunity to raise the issue of client confidentiality. In March, however, one of Draft's competitors asked why the Postal Service would ask agencies to provide production expenses for its clients, which is confidential information. The contracting officer's response to this question (Questions and Answers, March 16, 2000) – which went out to all potential suppliers, including Draft – was as follows:

> **4. Agency creative production cost data will be more meaningful if it is related to specific executions, however, we would not ask your agency to violate confidentiality. If you cannot answer this question directly without truly violating client confidentiality, please answer by providing in terms of Client A, Client B, etc.**

This particular agency proceeded to provide such confidential information, along with client names, but also included a "confidential information" clause restricting the use of its proposal on the cover page of the proposal

as well as on the pages within the proposal that contained proprietary information. No other agency raised the issue.

b) *Why did the Service reject such alternatives? How did the other agencies in the Direct Marketing/Sales Support module respond? Did they reveal the identity on their clients?*

The Postal Service did not opt to contact Draft's clients directly because Draft did not raise the issue until July 10, over three months after it had been eliminated from the solicitation process. At that point, the purchasing team had made significant progress in the solicitation process, and it was simply too late to go back.

As stated in the answer to question (a), above, one agency revealed the identity of its clients along with confidential production expenses, including cost per response, conversion rate, and return on investment. This agency included a proprietary information provision on the proposal's cover page and on every page that contained proprietary information. Another agency also revealed the identity of its clients, but provided ranges with regard to confidential production expenses, rather than specific numbers. We found both methods to be responsive.

c) *Did the Service consider it appropriate for agencies to provide listings on its clients and campaigns with the client's name redacted?*

Yes, we considered it appropriate for agencies to redact clients' names. It was our suggestion that the agencies do so. While the client name gives the information greater validity, purchasing teams are more interested in receiving information regarding planning, implementation, and results associated with an individual client. This information will enable the team to determine whether a marketing plan was realistic.

d) *If the Postal Service's name were blanked out from an example, which, includes "Fly Like an Eagle," wouldn't most reasonable people figure out to whom it was referring? Also, if you redact a client's name, how do you verify that the example is even true?*

Redacting the identity of a client includes redacting slogans and all identifying information in addition to the client's name. Therefore, when properly redacted, no one should be able to determine the identity of the client in the example.

The Postal Service would not ask an agency to identify a client whose name had been redacted. In order to verify the accuracy of the data, we would ask for the name of a client who could give us information regarding the overall performance of the agency, including the agency's timeliness,

compliance with the clients' requests, and working relationship with the client. Furthermore, it is difficult to falsify marketing data to people who are familiar with the marketing field.

e) *Why were there only two agencies providing bids for the Direct Marketing/Sales Support award when the other major awards had 3 or more bids? Do you consider 2 pricing bids adequate competition for a multi-million dollar contract award?*

The contracting officer determined that two offers for the Direct Marketing/Sales Support contract would provide adequate competition because the agencies receiving the two lowest pre-qualification scores were well below the scores of the two highest ranking agencies. Significantly, Draft was ranked fourth out of four potential suppliers; the third ranked supplier was also not prequalified. It became clear after the prequalification evaluation that the two highest scoring agencies were technically far superior to both Draft and the other competitor in terms of their prequalification proposals. Therefore, the contracting officer determined to solicit offers from the technically superior suppliers. This determination was consistent with the contracting officer's decisions regarding where to cut off the low offerors in the other four modules of this solicitation. We believe that we did receive adequate competition with the proposals we received from the two prequalified offerors.

61. Serious concerns have been raised by nonprofit mailers that the Service's enforcement of the cooperative mailing rules amounts to Postal Service action to reduce the amount of mail which travels at nonprofit rates. It is claimed that the Service has stretched the Cooperative Mail Rule well beyond the law, beyond the Domestic Mail Manual and, as has been expressed to me, beyond reason.

a) *Is it the intent of the Postal Service to reduce the amount of mail eligible for nonprofit rates by narrowly interpreting and strictly enforcing its cooperative mail rule?*

It is not the intention of the Postal Service to reduce the amount of mail eligible for nonprofit rates. Eligibility for nonprofit rates, including the identity of the organizations eligible to use those rates and the materials they may mail, is established by statute. The Postal Service's sole goal has long been to offer those rates in accordance the language of the statutes, including, where applicable, any legislative history. Particularly in recent years, the Postal Service has worked closely with members of the nonprofit industry to resolve issues in a manner compatible with nonprofit mailers' operations. We believe that these instances of facilitating operations have led, if anything, to increases in the volume of nonprofit mail.

b) *How do you respond to allegations that the Service has taken inexplicable stands and made rulings that are at variance with the law and the Domestic Mail Manual?*

The cooperative mail rule is the longest-standing restriction on the materials that may be entered at nonprofit rates. It is based on the premise that the nonprofit rates were meant solely for the benefit of the nonprofit organizations designated by Congress. The factors considered by the Postal Service in applying the rule in recent cases are not new, but are the same as those it has used for numerous years. The Postal Service rulings are consistent with the law. In fact, the rule -- and the Postal Service's application of the rule -- has been upheld when challenged in federal courts.

62. The Subcommittee has heard concerns that the Postal Service may not be supporting or encouraging the PC Postage program.

a) *Is the Information Based Indicia Program a priority for the Service?*

Yes, the Postal Service views the Information Based Indicia Program (IBIP) and PC Postage as important components of our goal to bring the Post Office to the People by providing convenient access channels for postage. In addition, we believe IBIP and PC Postage can assist us in our plan to improve financial performance in the years to come. We believe that IBIP, PC Postage and their underlying technologies will generate new revenue for the Postal Service. These technologies allow the Postal Service to reach consumers and businesses through new and innovative postage evidencing solutions.

b) *If so, what is the Service doing to support PC Postage by creating an overall awareness of the PC Postage option?*

The PC Postage launch at USPS Headquarters in August 1999 was the largest attended media event ever for a new postal related service. The Postal Service strategy at that time was to build upon the brand of PC Postage; however, the four vendors opted not to co-market with us but to pursue their own individual strategies for marketing their particular brands.

As it became evident that a partnership with the Postal Service would be advantageous to the vendors, they have subsequently agreed to participate in a joint marketing strategy. Three of the vendors have signed a licensing agreement with us. Now that we have the commitment from at least three vendors, we plan to expand our advertising awareness of the PC Postage brand.

This past spring the Postal Service featured PC Postage in the Spring Small Office Home Office (SOHO) direct mail piece. We produced a 600,000 direct mail advertisement targeted to the SOHO market.

We are dropping another 600,000 piece mailing December 11 to additional SOHO customers. This mailing is a joint effort between three of the vendors and the USPS. It will advertise their products and web sites. In conjunction with the mailing, we will utilize print advertisement in trade magazines and Web site banners. In early calendar year 2001 we are planning some multimedia/TV/newspaper brand awareness advertising.

c) *Does the Service have any plans to offer PC Postage as part of its e-commerce initiatives or will the Service continue to deliver this product to businesses and consumers exclusively through certified companies?*

The Postal Service currently has no plans to offer PC Postage as part of its own e-commerce initiatives. The encouragement of commercial companies to develop PC Postage products that meet market demands will continue to be our strategy.

d) *How do you respond to concerns that the Service, in the case of PC Postage, essentially competes against businesses that it also regulates?*

As noted in our response to question 62 (c) above, the Postal Service does not currently plan to offer its own version of a PC Postage product. Therefore, we do not see ourselves in competition with these businesses.

63. NetPost Mailing Online was approved by the Board of Governors on August 28th to begin a 3-year trial program. The Subcommittee has been informed that a large advertising budget and awareness campaign has already been rolled out to supposedly the same target market that has been identified for PC Postage products.

a) *Is this the case? If so, how do you respond to PC Postage companies that fear migration of customers from PC Postage to NetPost Mailing Online?*

Advertising has just started for Mailing Online, and it is far too early to measure its effects. We consider Mailing Online to have appeal to a wide range of customers, so it is perhaps inevitable that there will be some overlap in the markets for Mailing Online and PC Postage. However, Mailing Online allows access to postage only for customers who create their mailings within the service. Customers who prefer to produce their own mailings will have no incentive to migrate from PC Postage to Mailing Online. Moreover, to the extent that customers use PC Postage to ship packages, such customers would be unable to use Mailing Online to satisfy their mailing needs.

64. You stated before a Senate hearing that the PC Postage program had received only mixed reviews to date. PMG Henderson has also publicly stated that the USPS was opposed to a discount in the current Rate Case to PC Postage mail. It is argued that since this mail is required to undergo address verification for each mail piece along with the generation of POSTNET barcodes it creates a cost avoidance for the Service. The Service argues that it not currently set up to take advantage of these savings and for the foreseeable future has no plans to modify their processes to capture the savings.

a) *Does the Service believe that a discount on First-Class PC postage mail would translate into higher volumes of PC Postage mail and this would, at least, be positive from the standpoint of postage retention for the Service?*

It is important to recognize that the private companies offering PC Postage develop and control their own pricing plans, which include not only postage but also service fees associated with the use of their products. As a result, the Postal Service is unable to predict a volume effect resulting from a potential discount on the postage component of the PC Postage price. It is the total price to the PC Postage customer that matters, and that price includes factors outside the control of the Postal Service. If the total cost to the customer of preparing and mailing a mail piece were to decrease due to PC Postage, there could be a volume increase.

In addition, the customer choice of whether or not to use a PC Postage product would most likely depend on a number of factors, including convenience, comfort with technology, as well as price. The Postal Service has not studied the individual impact of each of these factors.

The issue of whether to establish rate categories for the First-Class Mail pieces prepared with PC Postage is presently before Governors as part of the recommended decision of the Postal Rate Commission. The Postal Service is optimistic about the future of PC Postage. However, as we explained in testimony presented in hearings before the Postal Rate Commission in Docket No. R2000-1, it has been our view that a number of issues need to be further explored to determine the feasibility, application, and magnitude of any rate differential which would be based upon the application of this relatively new, but promising technology.

b) *Has the Service estimated the cost of selling stamps at the window, through vending machines, by mail and through merchandisers such as grocery stores? If so, please provide an estimate for each of these types of stamp sales and any others that may exist. In addition, please provide the average cost per stamp for stamp sales.*

We have a great deal of information on the cost of selling stamps. However, because of the different channels the Postal Service uses for selling stamps, and given that stamps are not fully tracked through our system (e.g. whether the stamps are in the printing process, in inventory, distribution, destroyed, returned from stock, etc.), we do not have an overall reliable estimate of the average cost per stamp. Nevertheless, the following information, which was provided for the record in Docket No. R2000-1, is available on the cost of selling stamps.

The estimated cost of selling stamps at the window was $760 million in FY 1998. (Source: PB/USPS-T11-12.) The average cost of a Stamps-by-Mail transaction is $0.11 per revenue dollar. The average cost of a Stamps Online transaction is $0.097 per revenue dollar. (Source: OCA/USPS-76b&c.)

The Postal Service paid $7.7 million in FY 1998 to manage the consignment program which encompasses stamps sold through grocery stores and other retail outlets (Source: PB/USPS-T11-8 redirected to the Postal Service.) It is estimated that 2.2 billion stamps are sold through consignment annually. (Source: OCA/USPS-80d.) The FY 2000 average cost of a consignment stamp sale transaction was $0.135 per revenue dollar.

Vending machine depreciation costs were $6.1 million in FY 1998. (Source: PB/USPS-T11-9 redirected to the Postal Service.) Maintenance and supervisor costs associated with vending machines were $54.2 million in FY 1998. (Source: PB/USPS-T11-12.) The FY 2000 average cost of a vending stamp sale transaction was $0.16 per revenue dollar.

c) *To the extent that stamp revenue generated by a PC Postage transaction does not incur such costs shouldn't the Service encourage customers to use PC Postage, as opposed to other forms of stamp purchasing, since, all other things being equal, this would increase contribution? If you disagree please explain why this is not the case.*

d) *What is the cost per stamp for printing and distribution? If such costs are avoided for revenue generated from PC Postage shouldn't the Service encourage customers to use PC Postage, as opposed to other forms of stamp purchasing, since, all other things being equal, this would increase contribution? If you disagree please explain why this is not the case.*

In FY 2000, approximately 40 billion stamps were printed.

Again, the following information was provided for the record in Docket No. R2000-1. In FY 1999, the Postal Service had printing costs of $169 million and stamp distribution network personnel costs of $13.0 million in FY 1998

(Source: PB/USPS-T11-5 and PB/USPS-T11-7, Workpaper A-1, component 180.)

Including the phrase "all other things being equal" always introduces an element of artificiality into a question. If one mail piece avoids a cost that an otherwise identical mail piece incurs, then the contribution on the first piece should be higher. In reality, any impact of PC Postage on contribution depends on what type of postage evidencing PC Postage customers used prior to PC Postage and how much that postage evidencing cost the Postal Service.

If PC Postage customers typically used traditional meters prior to adopting PC Postage, then they were already avoiding stamp purchase costs. Or, if customers purchased stamps through postal vending machines or consignment outlets prior to adopting PC Postage, there are no window service cost savings. In addition, the method of postage evidencing (stamps, meters, etc.) is only one component of how much it costs the Postal Service to process a mail piece. The Postal Service has not yet explored all of the issues that have an impact on the costs that PC Postage potentially avoids and whether the Postal Service is able to capture those avoided costs.

The Postal Service encourages customers to purchase stamps through channels that are most convenient to them and that are cost effective for them and for us. We offer a variety of stamp purchase channels because all things are not equal among our 260,000,000 customers. For the overwhelming majority of our customers, the most cost effective method of affixing postage is by stamps, notwithstanding the convenience that meters and PC Postage may offer for some. Accordingly, we promote the use of alternative postage purchase channels to our customers via television commercial, print advertising, direct mailings, and signs in postal lobbies. Nevertheless, the Postal Service is optimistic about the future of the relatively new, but promising PC Postage technology and will continue to work with vendors to maximize its potential.

65. The Service contends that automation programs are reducing costs at a faster rate than ever before. Nonetheless, there is concern that rising labor costs are wiping out savings from automation.

a) *How do you respond to this concern? Please provide productivity and wage and benefits cost figures to support your response.*

Savings generated by the letter automation programs are $468 million more in cumulative savings than had been projected for the program for the period of FY1988 through the end of FY1999.

The Postal Service experienced overall volume growth of more than 46 billion pieces or 28 percent during the period of FY 1988 through FY 2000. Total work hours for the same period increased only 10 percent. Overall productivity (total volume/total work hours) for the period improved by 17 percent.

Before the automation programs began, distribution work hours were 34 percent of the total work hours used within the Postal Service. These distribution work hours declined by more than 100 million hours or 20 percent from FY 1988 through FY 2000, which was 25 percent of total work hours. The decrease in these work hours is directly attributable to the successful implementation of the automation programs.

Even while the target work hours declined and volume grew, total salaries and benefits for the Postal Service increased approximately 64 percent from FY 1988 to FY 2000. For the same period, because of the decline in the targeted distribution work hours, their cost showed a dramatically smaller increase of approximately 19 percent.

We are concerned about the increase in salaries and benefits.

	FY 1988	Preliminary FY 2000	Difference	%Difference
Total Volume (Million Pieces)	160,954	206,615	45,662	28%
Total Work Hours (Millions)	1,475	1,623	149	10%
Productivity (Volume / Hours)	109	127	18	17%
Total Salaries & Benefits ($Millions)	$ 27,427	$ 44,873	$ 17,446	64%
Total Work Hours (Millions)	1,475	1,623	149	10%
Total Cost per Work Hour	$ 18.60	$ 27.64	$ 9.04	49%
Targeted Distribution Work Hours (Millions)	499	398	(101)	-20%
Percentage of Total Work Hours	34%	25%	-9%	-28%
Total Cost per Work Hour	$ 18.60	$ 27.64	$ 9.04	49%
Cost of Targeted Distribution Work Hours ($Millions)	$ 9,283	$ 11,002	$ 1,719	19%

66. While wage rates may be rising, automation savings can be realized by optimizing the deployment of labor through job transfers and/or attrition.

a) *Please describe the strategies the Service is employing to maximize the savings from automation within the constraints of the current labor agreements.*

The Postal Service is able to overcome constraints within labor agreements by careful advance planning to achieve the full measure of automation program savings. Deployment schedules are known well in advance and are communicated to field personnel so that they can start planning to

capture savings ahead of the equipment deployment. Additionally, positions can be identified in advance as automation affected and vacancies can be filled with temporary employees known as "transitional employees". These employees receive a lower salary rate, virtually no fringe benefits and can be terminated when the automation equipment is activated.

We are allowed another category of temporary employees, known as casuals for temporary work requirements. These employees also receive far less salary than career employees and have no fringe benefits. During FY 2000 the Postal Service saved $63 million by using more casual employees than planned and saved an additional $21 million through transitional employees.

Our strategy to capture the savings from automation within Delivery is based on the following sequence of events:

Letter mail automation produces mail in carrier delivery point sequence (DPS), and we are continuously working to increase the percentage of DPS mail. The new flats automation equipment now being deployed will produce mail sorted to firms and carrier case shelves. In the future our plan is to sort to block sector–segment, and in DPS. These activities reduce letter carrier office time by reducing the time required to manually sequence mail for delivery. By reducing carrier office time, the time available for street delivery can be extended through route restructuring and route adjustments. In the past, route adjustments were done based on the subjective opinion of the individual delivery supervisor. We are now exploring the use of formal computerized route optimization modeling to reduce aggregate carrier line of travel distance, and park points and relays within individual routes, to insure the most efficient total delivery network.

67. To its credit the Service has improved in the areas of customer satisfaction and service performance. The Gallup Poll Customer Satisfaction Index combined ratings of Excellent and Very Good have improved two points from 69 to 71 since 1997.

a) *To what do you attribute this increase in customer satisfaction? Please, to the extent that the data permits, discuss the increased satisfaction in terms of the types of service (e.g. – retail services, delivery service, customer inquiry, etc.).*

The CSM-Residential survey shows an increase in consumers' rating of Overall Performance of the Postal Service from 69% Excellent/Very Good in 1997 to 71% in 2000. It is difficult to identify steady increases in one or two service attributes such as delivery or retail services that may have lead to

increased satisfaction. Rather, this increase can be attributed to small, incremental increases in several attributes over the past four years.

b) *What strategies does the Service intend to pursue to build on this success. For example, will the Service introduce new or revised employee training to improve customer satisfaction?*

The Postal Service intends to pursue several strategies to build on our success. For example, the Retail department has released Sales and Services Associate Training, mapping all of our products and services around the GIST principle. GIST stands for, Greet, Inquire, Suggest and Thank. As each new associate goes through on-the-job training, every product and service is framed around a customer approaching the retail counter.

Additional training is designed for supervisors and postmasters. It utilizes a process flow chart of how the "perfect" retail sales path should flow. It also gives the management team a Retail Sales evaluation form and timeline for evaluating associates working in their offices.

68. The Service reported that FY 2000 Quarter III's 94 percent on-time delivery performance for overnight First-Class mail adds to the string of performance increases in Quarter III over the past five years .

a) *How has EXFC overnight performance changed in Quarters I, II and IV over the last five years?*

b) *How has EXFC 2/3 day performance changed in each of the Quarters and FY's over the last five years?*

The attachment reveals the overnight, two-day, and three-day service performance trends for First-Class Mail since PQ I, FY 93. The titles shown on the trend chart are as follows: "commit 1" is overnight, "commit 2" is two-day, "commit 3" is three-day and PQ X, FY YY is "YY:X " above each set of results.

c) *Does the Service have any plans to expand the panel of ZIP Code areas included in the EXFC system to include more volume? If not, please explain why the current panel is adequate.*

During PQ I, FY 1999, the delivery area covered by EXFC was expanded from 302 three-digit ZIP Codes to now, 463. This means that the total destinating volume represented in EXFC increased from 62 percent to 80 percent. Given this recent expansion, and the fact that the Postal Service uses other internal methods to evaluate service performance, no further expansion is now planned.

69. The on-time performance of scheduled passenger airline has recently been dismal. Many major airports report percentage on time figures of less than 60 percent.

a) *How has airline performance affected Express , Priority and First-class mail service particularly for 2/3 day mail?*

For Express and Priority mail that does not travel on dedicated air transportation, and for First-class mail, there has been a relationship between the decline in the on-time performance of scheduled passenger airlines and our service performance. During the period from March to August of 2000 there was a significant decline in the on-time performance of several major air carriers who transport mail. During the month of May, there was as much as a 16.9 point decline in the performance of United Airlines from the same period for 1999 (at 29 major airports). During the associated time period (accounting period 9), the Postal Service had an increase of 11.2 percent in average daily weighted failures for External First-Class Mail (EXFC) 2/3 day test pieces and an increase of 11.8 percent in average daily weighted Priority End-to-End (PETE) test pieces, from the same period 1999.

This decline has continued with the on-time performance for the major air carriers at the 29 major airports being 69 percent for the month of August 2000, with United Airlines' performance being 43.7 percent.

b) *Does the Service have the ability to separately track service failures associated with flight delays? If so, what percent of service failures were due to flight delays?*

The Postal Service does not have the ability to separately track the EXFC and PETE test pieces service failures associated with fight delays. We are only able to infer a relationship between declines in airline on-time performance and USPS service performance. Although there is no system in place to separately track service failures associated with flight delays, we have recently completed a study to estimate the difference between the Priority Mail performance levels for mail traveling by air versus surface. This analysis indicates that performance levels for mail scheduled to travel by air was approximately 15 percentage points lower than mail scheduled to travel by surface.

70. The Board of Governors recently approved funding to design, develop and provide national implementation of the Surface Air Management System (SAMS). The system is intended to provide the Postal Service with the ability to select the best combination of service and costs. The system is to include a database of existing transportation routes to be linked to mail processing equipment for purposes of helping postal management determine the optimum form of transportation to meet particular service standards.

a) *Will plant routing managers have access to SAMS in order to optimize transportation routing on a daily, weekly, monthly or annual basis? Will the information be used at District, Area and Headquarters level and in what manner? How will the Transportation Management Service Centers utilize the information?*

Plant managers will have access to the SAMS server in order to optimize routings within the planning cycle, i.e., the current operating week and the week following. Information gathered from the SAMS server will be available for all management levels; it will be used to monitor conformance to established operating criteria, network diagnostics, and planning purposes. The Area Distribution Networks Offices will utilize the information in the same manner as Headquarters.

b) *Will SAMS be programmed to automatically select the optimal routing?*

The SAMS Server is dependent upon a planned routing file that is sourced from a nationally hosted planning system – National Air and Surface System (NASS). Area Distribution Networks staff and Headquarters use NASS to set optimal mode routings based upon dispatch window, existing transportation routes and service standard for the origin/destination pair. It is this process that yields an optimized routing for the SAMS server.

c) *What are the projected cost and savings from SAMS? Is the savings included in the $100 million per year breakthrough productivity savings in network cost?*

SAMS is projected to cost approximately $35 million. The system enhances the opportunity for the Postal Service to reduce the labor involved with the dispatch process and to optimize on our utilization of the transportation network. The savings are not included in the $100 million per year breakthrough productivity savings in network cost.

71. The Postal Service has indicated that the Inspection Service has improved its data collection regarding the number of cases involving the use of off-premises delivery services, including post office boxes, for fraudulent purposes.

a) *Please describe how such data collection methods were improved. Please list the data elements in the database. Does the database include reports of alleged criminal activity as well as status of investigation and convictions? Has the Service generated new reports from the improved database? If so, please provide them to the Subcommittee as appropriate without compromising ongoing investigations.*

The misuse of commercial mail receiving agency (CMRA) and post office

box addresses to conduct criminal activity became more apparent over the last decade, particularly with the rise in credit card and identity fraud schemes. Most current law enforcement case databases were first designed in the 1980's. They were not engineered to track CMRA or PO Box involvement, as there was no apparent need at the time. Although consumers and businesses can immediately discern that a PO Box is not a physical location of a business or private residence, it becomes more difficult when a CMRA address reads "Suite 1250, Rodeo Drive," etc. For that reason, and to respond to the concerns of business mailers, the Postal Service proposed regulatory changes to the procedures governing CMRAs. Although the Inspection Service provided case examples to illustrate the problem, those opposing the rule changes pointed out that the information was anecdotal, with no empirical evidence supporting the proposal. The Inspection Service determined that no other law enforcement agency had designed databases to track this information either. Therefore, upon implementing the regulatory change, the Inspection Service resolved to enhance its case database to identify instances when CMRA or PO Box addresses were implicated in an investigation.

The modifications to the Inspection Service case database are rather straightforward. If a CMRA or PO Box is the subject address at the point the investigation is initiated, there is an entry field that is flagged. The data fields are designed to capture both CMRA and PO Box use when one or both address options are used. We recognized the very real possibility that through the course of an investigation, use of a CMRA may be discovered where none was apparent at the onset. To address these occurrences, a field was created that prevents the closing of the case without identifying any CMRA and/or PO Box addresses used to further the scheme.

The enhancements were made to our actual case database files, so all information, names, addresses, arrests, convictions, etc., will be included with any query. At the end of the first quarter of the fiscal year (December 31, 2000) we will produce statistical reports showing the instances of CMRA or PO Box addresses appearing in criminal cases we are investigating. Since this is the first time we will use the enhanced system other than test runs, we will need to verify the accuracy of the reports. Upon verification we will provide the subcommittee copies of the specific information, absent any sensitive ongoing case particulars. Although data can be obtained running ad hoc reports, four specific production reports were designed to capture the information we felt would be most useful. Those reports are entitled as follows: 1) Current Open Cases With CMRA; 2) CMRA by Investigative Project open/closed; 3) Post Office Box by Investigative Project open/closed; and, 4) Both CMRA and P.O. Box by Project open/closed.

It should be recognized that it will take a year or more of data reporting to

draw meaningful conclusions regarding the use of CMRA or PO Box addresses to further criminal schemes. We will support the data by continuing to monitor actual cases for new schemes and to develop potential prevention measures.

72. The Board recently approved funding to purchase 362 Automated Flat Sorting Machine 100s as a replacement for existing flat sorting equipment (FSM 881s). The new equipment promises to improve customer service by allowing more flat mail to be processed on automation equipment during critical processing windows. The Service has indicated that savings from the program are expected to near $440 million annually.

a) *What is the deployment schedule for the 362 new AFSM100's? When will the approximate $440 million annual savings be realized? Following deployment of the 362 new machines how many FSM881's will remain in the field?*

Deployment of the 362 new AFSM 100s is scheduled to begin in January 2001 and end in March 2002. The full-up annual savings should be realized in May 2003. The exact number of FSM 881s that will remain in the field has not yet been determined, but the majority of them will be disposed of.

b) *What percentage of flats are currently processed manually and how will that figure be affected by the deployment of the362 new AFSM100's?*

We perform 2 basic flat mail sortation processes. The first is performed in our plants where we sort mail down to the local Post Office level. About 18 percent of flat mail handled in our plants is currently processed in manual operations. The newest purchase of 362 AFSM 100s will reduce that figure to about 11 percent.

Once sorted down to the local Post Office level, a majority of the mail is sent to that Post Office where it is manually sorted down to carrier routes. There is also a significant amount of mail that comes into the Delivery Unit already presorted to 5-digits by our customers. This mail also requires one manual handling at the Delivery Unit to put it into carrier sequence. Before any of the AFSM 100s were deployed, about 50 percent of all flats were processed to the carrier route manually. The earlier purchase of 175 AFSM 100s is reducing that figure to about 41 percent, and the newest purchase of 362 AFSM 100s will further reduce that figure to about 29 percent. Most of the remaining 29 percent is not a candidate for automation and will still be sorted manually at our Delivery Units.

73. The Service has made remarkable strides in using automation to keep down the cost of processing letter mail.

a) *Please discuss the challenges the Service faces in bringing the benefits of automation to the processing of flats.*

There are many challenges associated with automating flat mail processing operations that we did not encounter with our letter automation program. They include working with a non-uniform mail stream (i.e., wide variety of thickness and materials), developing the required sequencing and collating technology, and even a more difficult problem of finding sufficient space within existing facilities to deploy the necessary equipment.

However, flats automation represents a great mutual opportunity for both the Postal Service and our customers. Our overall strategy for flats will integrate the needs and worksharing capabilities of our customers with the efficiencies of our mail processing systems, and the opportunities presented by delivery operations. Working together, we can repeat our successes in letter mail by applying the lessons learned and relevant technologies to flat mail processing operations. Today, we are already investing in material handling, working to identify and change mail preparation requirements in a mutually beneficial fashion, and using technology to its fullest.

Our processing strategy is twofold and incorporates the most successful elements of the letter distribution plan into our flats program. First, we want to continue to automate flat mail processing operations to improve operational efficiencies and overall productivity. And secondly, we want to develop technology to delivery point sequence (DPS) flats the same way we now sequence letters. That's a significant challenge, but we believe it is possible.

For example, sequencing mail requires that all mail be available when the sequencing process begins. This was a reasonable conclusion for letters since they are dominated by First-Class Mail and must be delivered that day. The service standard requirement drove the immense number of machines required to execute a delivery point strategy for letters. The same is true for flats if we follow the service demand of publications. The dichotomy arises when we look at the advertising product. The direct mail industry seeks to optimize the logistics supply chain to minimize cost for a targeted delivery date.

For a large component of advertising flats, the issue is not sequencing the mail but collating the various mailings into a single delivery point sequenced bundle for the letter carrier to deliver. Furthermore, the collating strategy requires far fewer and likely smaller machines because the advertising mailer could optimize the logistics chain and present the mail with sufficient lead time that machines can work around the clock rather than in a very constrained time period as with sequencing.

74. Last year the Service initiated Electronic Merchandise Return Service (EMRS), an Expedited/Package Services initiative that enables customers to more easily return merchandise purchased online.

a) *Is there a fee associated with this service? Specifically, does the "e-tailer" or the consumer pay an additional fee beyond the return postage for the service?*

In addition to postage and fees for special services such as insurance and delivery confirmation, "e-tailers" pay a Merchandise Return Permit fee ($100) once each 12-month period. A transaction fee is also assessed for each package returned under the permit (30 cents).

b) *How many "e-tailers" participate in the EMRS program?*

In addition to postage and fees for special services such as insurance and delivery confirmation, "e-tailers" pay a Merchandise Return Permit fee ($100) once each 12-month period. A transaction fee is also assessed for each package returned under the permit (30 cents).

c) *How many packages have been returned using the new EMRS since its introduction?*

Average estimates are 2,000 per Accounting Period. Total AP 1 = 2745

75. Under the EMRS program customers can then place the label on the box of merchandise to be returned and take the box to the post office, place it in a collection box, or hand it to their letter carrier.

a) *For zone rated mail how is the return postage calculated? What ZIP Code of origin and destination is used?*

Charges are collected for each article as postage due at the time of delivery or from a centralized advance deposit account. Each label is required to have a customer's return address. The zone-based rates are calculated according to the return ZIP Code on the label. If there is no return address or postmark, zone-based rates are calculated at Zone 4.

76. Claiming "growing success" the Postal Service recently expanded Priority Mail Global Guaranteed (PMGG) service to over 200 countries. The Service claims that PMGG provides "market-tested value in terms of both service and price." The PRC's FY1999 Report to Congress on International Volumes, Costs and Revenues indicates that for FY1999 the Service had about 7, 000 pieces in total and that revenues from did not come close to covering the cost of PMGG. It appears that the market has not responded favorably to this new offering and that PMGG is a financial burden on the Postal Service.

a) *Given this experience how can the Service claim that PMGG has been shown to be a "market-tested value." What has the volume of PMGG been YTD in FY2000?*

On October 1, 2000, the Postal Service announced several significant enhancements for its premier international expedited service not the least among them, a name change. Priority Mail Global Guaranteed (PMGG), as it is referred to in this question, became Global Express Guaranteed (GXG). In addition, GXG has been expanded from what had been a "documents only" service to also provide a full package delivery service with a separate classification of mail. GXG provides date certain delivery to more than 200 countries and territories and its nationwide retail availability has been expanded twofold to approximately 20,000 retail locations. The USPS Board of Governors expressed its confidence in this fledgling program by approving designating it as a "permanent service," further evidence of its evolving maturity. Taken as a whole, this significant step forward came as "PMGG" demonstrated its market relevance as it continued to show steady growth through every AP (accounting period) since its inception in April of 1999. Also of significant note was the steady progress made in terms of systems integration as the Postal Service's processes came together with those of DHL Worldwide Express, Inc. These were vital steps as we moved toward a fully featured service offering. On the question of volume, a year-to-date volume for the service would primarily reflect volume for the "documents only" service and would not be a relevant measure for where the service is now positioned offering both a document service and a merchandise service. Additionally, the information regarding volume is proprietary business information of both the Postal Service and DHL.

b) *What criteria has the Service used to determine whether PMGG as currently offered has generated sufficient demand to justify expansion?*

The goal since inception has been to offer the kind of fully featured, cost efficient premium service Postal customers should have every right to expect. To reach that goal and to bring us to the point of the recent expansion, a number of measurements have been employed such as volume growth, customer service and satisfaction, integrity of delivery, systems integration and function compatibility. DHL's existing infrastructure including its global reach with track and trace capabilities allowed us to achieve these objectives within a reasonable timeframe while maintaining fiscal responsibility.

c) *Last year you said, "future customer satisfaction indexes will determine the future of this program." Please provide the results of such customer satisfaction indexes and a full explanation of how this indexes were*

developed. Include in you response the survey questionnaires and a full explanation of the survey sample design.

The results of a customer satisfaction survey, conducted for us by Harte Hanks tell us that customers have been satisfied with the service. The results of the customer satisfaction indices and how they were developed, as well as the survey questionnaire itself, are considered proprietary information. We would be pleased to brief the subcommittee on these issues.

d) *Last year you said that "internally tabulated raw numbers on delivery times and guarantees will not measure the success of this service since each case is different." Despite your opinion regarding the usefulness of such numbers the Subcommittee again requests such figures for the record. Please provide the on-time delivery scores for PMGG and the number of claims and refunds for service failures.*

The position taken in response to last year's inquiries remains valid and relevant. As already indicated in response to other questions submitted this year, the measure employed to determine the success of this program is a mosaic and not limited to any singular set of numbers. As a part of this overall picture, it is fair to say that delivery scores are meeting expectations and that claims are low and refunds few.

e) *Please explain how PMGG has been marketed. What customer segment(s) has PMGG been marketed to? What were the total advertising costs for PMGG last year and year to date?*

PMGG has been marketed to small business and consumer segments whose international expedited mailing needs were not being met as evidenced by the erosion that had been detected in the Postal Service's share of that market. This customer is generally subject to published rates and does not receive retail discounts but should receive the best service the Postal Service can offer. We believe GXG fulfills that commitment. In addition, we are reluctant to offer information about advertising costs because it is proprietary to both the Postal Service and DHL.

77. According to the Subcommittee's calculations, to cover its product specific costs reported in FY1999 PMGG volumes would have to increase approximately tenfold.

a) *Does the Service anticipate that it will increase volumes to cover its product specific costs in FY2000? If not, when does the Service anticipate that PMGG will cover its cost? What is the nature of these product-specific costs? Are these so-called start-up costs and, as such, will not be incurred again?*

While critical to the development of GXG, PMGG performance measures of the "documents only" service cannot be used to predict the future for this GXG service. It is now available in more than 20,000 locations nationwide, up from 10,000; it now serves more than 200 countries and territories around the world, including China; and it has moved from a "documents only" service to also providing a full merchandise delivery service with a separate classification of mail. While PMGG the original "documents only" service was a necessary offering to lay the foundation, today GXG has many more attributes that will make it successful financially and in the marketplace. Its viability will be further enhanced since necessary start up costs, in large measure, have already been incurred. Nonetheless, and understanding that market conditions are not always predictable, our goal is to develop GXG as a successful service and have it recover fixed costs associated with starting the new service over time.

78. The Service recently announced the first commercial availability of the USPS Electronic PostmarkTM (EPM). The EPM is a feature designed for email subscribers interested in ensuring a higher level of security for their electronic messages and will be available through participating email providers as an add-on feature.

a) *To date how many service providers have added EPM as an optional feature to their email messaging services?*

EPM is used by one service provider external to the USPS. The Postal Service also uses EPM in its own PosteCS product.

NOTE: The Postal Service regards this information as proprietary and requests that it not be disclosed publicly.

b) *To date how many customers have used EPM?*

We have sold one million EPMs to a private sector company with an option for another million in year two. (This is a service provider who resells to its customers.) Currently, there are 718 customers enrolled in PosteCS.

NOTE: The Postal Service regards this information as proprietary and requests that it not be disclosed publicly.

c) *To date how many messages have been transmitted using the EPM?*

Four hundred sixty transactions have been sent through PosteCS. We have no information for the private company that purchased USPS EPMs.

NOTE: The Postal Service regards this information as proprietary and requests that it not be disclosed publicly.

79. The Service contends that Electronic Postmark was developed in response to requests from customers for stronger levels of trust and security, backed by the brand of the United States Postal Service.

a) *Please discuss how these requests were received from customers? How many requests were received? Were these requests unsolicited or were they the result of market research by the Postal Service?*

The idea for the EPM was a logical extension of the physical postmark to the electronic world. Based on focus group and other market research, as well as one-on-one customer discussions at trade shows, the EPM concept originally evolved as an email application, which was later transferred to the web.

b) *Please provide the volume projections in the EPM business plan.*

38 MM transactions in FY 2001.

NOTE: The Postal Service regards this information as proprietary and requests that it not be disclosed publicly.

80. The Service contends that Electronic Postmark represents the first in a suite of electronic products and services offered by the Postal Service under the umbrella concept of Postal Secure ServicesTM.

a) *Please describe the other electronic products that will be offered under the umbrella concept of Postal Secure Services.*

The services we are currently placing under this "umbrella" are as follows:

NetPost.Certified: Service that provides confidential, assured delivery of electronic documents to the government. Completed electronic deliveries are immediately certified back to the sender. NetPost.Certified is the electronic equivalent of today's hard copy Certified Mail.

Certificate Authority/Public Key Infrastructure (CA/PKI): The Certificate Authority program issues Digital Certificates that are the electronic IDs of the Internet. Certificates are used to identify and authenticate senders of electronic messages.

PosteCS: Post Electronic Courier Service™ (PosteCS) is an Internet-based secure document delivery service. It is integrated with the USPS' Electronic Postmark™ digital authentication system and delivers important or sensitive documents from companies or individuals to anyone with an email account and a Web browser.

Electronic Postmark (EPM): An Electronic Postmark (EPM) is similar to a paper postmark. It creates a secure electronic time and date stamp for electronic communications. It also provides evidence of any tampering.

b) *Please describe from a technical standpoint how the Postal Secure Services are more secure than other similar electronic products offered by other service providers.*

The Postal Service ensures that: (1) all program management, programmers, developers, and operational support personnel have USPS sensitive clearances; (2) all servers are located in secure facilities; (3) each product has undergone the USPS Information Technology certification and accreditation process; and (4) the trusted third party status of the Postal Service and our commitment to secure delivery is part of every product offering.

c) *How does this product fit in with the universal service mandate, or is this a competitive product? If competitive, how/why is it competitive and what is its advantage over existing competitive products?*

The Postal Reorganization Act does not exclude competitive services from the universal service mandate. For example, 39 U.S.C. § 403(a) specifically requires the Postal Service to deliver parcels throughout the United States. The Postal Rate Commission has treated certain parcel air transportation costs in Alaska as institutional costs on the basis of a rationale that these are costs of universal service. Section 101(f) stresses the importance of overnight service for letters nationwide.

We think that Postal Secure Services can assist in bridging the digital divide so that all Americans can have access to the benefits of Internet technology. The President's Budget for Fiscal Year 2001 called for the Postal Service to be an enabler in e-commerce. Under the Postal Service section (pp. 1195-1196), the Postal Service is encouraged to "examine the emerging communications technologies and to cooperate with the private sector on issues of integration, directory service and strategic alliances that will facilitate the development of secure and reliable electronic messaging networks.... The Postal Service should assist in developing future messaging systems. The Postal Service's participation should recognize the changing needs of its business, governmental, and individual customers; should focus on determining appropriate means for public and private sector cooperation; and should be consistent with the agency's vision of evolving into a premier provider of 21st century postal communications." The Postal Service sees itself as enabling the private sector through partnerships with private sector companies.

81. In April the Service announced an agreement with Wackenhut Courier Service to transport shipments from Santiago, Chile and other major markets in South America, to the United States for delivery through its Priority Mail system. Under the agreement Wackenhut will accept shipments in Chile, transport them to the United States, clear them through commercial customs and then enter the pieces into the Postal Service Priority Mail system for delivery.

a) *When Wackenhut enters the pieces into the Priority Mail system will the Postal Service be paid the full applicable Priority Mail postage published in the Domestic Mail Classification Schedule? If not, at what rate will the pieces be charged*

Wackenhut Courier Service is required to pay postage for Priority Mail in accordance with Priority Mail rates as published by the USPS at the time of mailing.

b) *Will such pieces be required to meet the makeup and mail marking requirements for Priority Mail?*

Yes. All pieces must comply with the makeup and mail marking requirements set forth for Priority Mail in the Domestic Mail Manual.

c) *How will such pieces be identified and reported in RPW and the costing systems?*

These pieces will be reported through the PERMIT system and be summarized in the "International Other Mail" line of the RPW report. For the costing systems, this mail will be classified as domestic mail at the time of sampling, but final costs will be adjusted to move these costs to international.

d) *Will the domestic costs of such pieces be included in the attributable cost of Priority mail?*

No. See response to 81c, above.

e) *Is there a separate rate schedule for products and services under the agreement with Wackenhut? If so, please provide it for the record and discuss how the rates were developed. In addition, what is the estimated cost coverage for such a product?*

There is no separate rate schedule for products and services under the Wackenhut agreement. It pays Priority Mail rates. We estimate the cost coverage to be higher than the average Priority Mail piece accepted at retail because acceptance costs will be lower.

82. In the last omnibus rate case, Docket No. R97-1, the Service estimates of its FY 1997 (the interim year) financial results were dramatically different from the actual results. That difference in large part was due to the Service's overestimates of its test year costs particularly for "other programs."

a) *How accurate were the estimates of the FY2000 costs in Docket No. R2000-1? Please provide for the record a table indicating the estimated FY2000 costs for other programs compared to the actual costs for "other programs".*

In rate case usage, "other programs" is one of the six sources of change used to estimate the total change in expenses by cost segment and cost component between two years. Other sources of change are cost level, mail volume effect, non-volume workload effect, additional workday effect, and cost reductions. The incremental change in costs for management initiated programs and corporate-wide activities are determined from the budget process and incorporated into the impacted rate case cost components using the other program change column. This method results in estimated rate case costs by cost component, but in most cases not by program or corporate-wide activity. As a result there are no rate case expense estimates by program to compare to actual program expenses. However, since in the rate case other program changes were based on the program and corporate-wide activity changes estimated for the operating budget, a comparison of the budgeted expenses to actual program and corporate-wide expenses provides a reasonable basis for determining the accuracy of the other program amounts reflected in the rate case.

The total budgeted and actual amounts for Headquarters Administered Programs and Corporate-wide Activities are reflected in the table below. Also shown is the same information for eight of the larger programs that account for slightly more than half of the total amount.
Also included under the other program column are miscellaneous expense categories that are not appropriate for inclusion under the other source of change columns. These include changes in interest, depreciation, centrally budgeted personnel cost such as workers' compensation and annuitant costs, and other miscellaneous items such as accounting and reporting changes.

	Prelim. Actual	Budget	% Variance
FY2000 ($millions)			
AO Infrastructure	83.5	90.6	- 8.5
MTESC	280.1	276.4	1.3
Priority Mail Network	512.1	463.1	9.6

Delivery Confirmation	59.5	68.1	-14.4
Point of Service	73.3	94.5	-29.0
Network Ops/Telecom	53.4	58.2	- 9.1
Recurring Mail Transport	163.1	170.5	- 4.5
Corporate Advertising	158.0	161.8	- 2.4
Subtotal	1,383.0	1,383.2	- 0.0
Grand Total	*2,605.7*	*2,710.9*	*- 4.0*

b) *How accurate were the estimates of the FY2000 revenues in Docket No. R2000-1? Please provide for the record a table indicating the estimated FY2000 revenues by subclass compared to the actual revenues.*

Actual FY2000 revenues were 0.17% below forecast. This is based on a preliminary, unaudited RPW report. Final results may be slightly different. We have presented these data as they are presented in the rate filing to the extent that the necessary detail is available.

Summary of Revenues
Comparison of Rate Case Projections and FY Results
Fiscal Year 2000
(Thousands)

	Revenues		
	Preliminary Actual	Docket R2000-1	Variance
First-Class Mail:			
Single-Piece Letters and Sealed Parcels	21,774,114	22,470,798	(696,684)
Presort and Automation Letters	12,552,955	12,300,297	252,658
Total Letters	34,327,069	34,771,095	(444,026)
Single-Piece Cards	559,432	593,456	(34,024)
Presort and Automation Cards	446,701	417,473	29,229
Total Cards	1,006,133	1,010,928	(4,795)
Total First-Class Mail	35,333,202	35,782,023	(448,821)
Priority Mail	4,837,056	4,740,686	96,370
Express Mail	996,100	994,373	1,728
Mailgrams	1,519	1,312	207
Periodicals			
Within County	76,717	78,090	(1,373)

Outside County:			
Nonprofit	338,784	325,163	13,621
Classroom	14,439	13,456	983
Regular-Rate	1,723,034	1,812,341	(89,307)
Total Periodicals	2,170,690	2,229,049	(58,359)
Standard Mail (A)			
Regular	8,618,800	8,464,503	154,297
Enhanced Carrier Route	4,879,448	4,896,106	(16,657)
Total Commercial	13,498,248	13,360,609	137,639
Nonprofit	1,396,917	1,438,278	(41,360)
Enhanced Carrier Route	216,343	236,456	(20,113)
Total Nonprofit	1,613,261	1,674,734	(61,474)
Total Standard Mail (A)	15,193,282	15,035,343	157,939
Standard Mail (B)			
Parcel Post	1,041,927	1,123,975	(82,048)
Bound Printed Matter	502,902	463,307	39,594
Special Rate	317,944	324,472	(6,529)
Library Rate	47,123	47,742	(619)
Total Standard Mail (B)	1,912,305	1,959,497	(47,192)
Source: R2000-1 projections from Exhibit USPS-32C, page 1 of 2, as revised 4-21-2000.			
FY 2000 results based on a preliminary RPW report.			

83. The Service has kept the Subcommittee periodically informed on its efforts to respond to the recommendations contained in the Data Quality Study. For the record:

a) *Please discuss the areas of improvement in the quality of the data used to support the Docket No. R2000-1 filing*

In the Docket No R2000-1 filing, the Postal Service submitted new studies and analyses addressing the recommendations of the Data Quality Study Report, including : (1) new mail processing data and analyses, (2) an updated street time sampling study, (3) an updated load time variability study, (4) a more thorough assignment of specific costs to Priority and international mail (these costs had previously been treated as institutional), and (5) improved documentation of the Transportation Cost System sample design.

b) *Please discuss the enhancements the Service has made and plans to make to its ratemaking data systems independent of the Data Quality Study recommendations.*

For RPW, the Postal Service is pursuing a simplified RPW system that will be based more on mail characteristics and less on data collector judgment. It will be easier to train data collectors in this new instrument and the establishment of this new approach will open the way to a merger of the RPW and ODIS systems, another enhancement the Postal Service is pursuing. Additionally, in FY 2001, RPW panel offices for CAGs F through L were rotated.

The Rural Carrier Cost System was redesigned in Fiscal Year 1999 to improve the accuracy of costs for Delivery Point Sequenced mail. The Form 2848 subsystem for collection mail on rural routes was revised to more accurately reflect product costs, and was automated to eliminate paper forms being sent to headquarters.

The panel of offices sampled in IOCS is being rotated. The first two phases of this project have been completed. In the first phase, implemented in FY 2000, all mail processing plants that were not already in the sample were included. In the second phase, implemented at the beginning of FY 2001, the CAG C panel was reselected. The sample office in the remaining CAGs will be rotated over the next few years.

Documentation of the sample design and computer processing systems for all cost systems has been completely updated and significantly improved, as part of an overall review of these systems. This improved documentation, filed in R2000-1, makes the systems much more understandable to intervenors, auditors, contractors and new employees.

Extensive efforts have been made to improve data collector training for the ratemaking data systems. Structured on-the-job training materials have been developed and are being used to help ensure data accuracy.

84. The Data Quality Study did not address the issue of non-sampling error. In explaining the possible causes for the original FY 1998 RPW underestimate of parcel post revenues the Service offered a number of scenarios. We understand this issue has been raised in Docket No. R2000-1.

a) *Has the Service developed any additional theories as to why the DRPW system underestimated parcel post review beyond those presented to the Subcommittee last year?*

No. At this time our analysis and evidence still points to the same hypotheses we presented to the Subcommittee last year. The Postal Service's opinion is that the existence of certain types of "noncountable" mail in RPW sampling (i.e., mail that is not to be sampled) caused data collectors to incorrectly infer permit imprint Parcel Post was not to be sampled. In its recent recommended decision, the Postal Rate

Commission found that revision to RPW reports that corrected the undercount drew upon better quality BRPW data and constituted an overall improvement in data quality. Moreover, the Commission cited with approval the extensive efforts to investigate this issue.

85. It would seem that if data collectors fail to identify parcel post in RPW sampling so too they would fail to identify parcel post in the costing systems that sample mail (e.g. - TRACS, City Carriers, Rural Carrier and IOCS).

a) *Do you agree that a similar problem might exist? If so, how has the Service addressed this problem. If not, please explain in detail why not.*

No, we do not agree there is a similar problem. In the cost systems, data collectors sample all categories of mail; there are no "noncountable" categories of mail.

86. Last year the Subcommittee asked you to estimate the impact that pending "E-Sign" legislation would have on postal volume and revenues. Since then the President signed into law the Electronic Signatures in Global and National Commerce Act. You previously responded that much of the transaction volume in the industries affected by the legislation are outside of Postal Service mail streams. You estimated that the volume impacted by such legislation is extremely small and would not warrant a special study to determine its significance.

a) *Please explain how you determined that transactions impacted by the electronic signature legislation are for the most part carried outside of the Postal Service's mailstreams.*

We saw the "E-Sign" legislation affecting business communities like legal services and banking. Our assumption in the past has been that many of the signed documents are also time-sensitive. As a result, other overnight delivery providers already carry them. The USPS does not have a large part of the market share in the overnight document delivery market and, therefore, would not be substantially impacted.

b) *Does the Service have information on the number of mail pieces that contain original signatures necessary to transact commercial and personal business? If not, how can you say that the electronic signature legislation will have little impact on Postal volumes and revenues?*

The USPS does not have information on the number of mail pieces containing original signatures. We would need to conduct customer research to develop precise estimates of the impact of the legislation. Our market research staff has considered the impact based on our existing

general knowledge of the marketplace, and they will continue to monitor developments and trends.

87. In July the Treasury Department announced two new electronic initiatives that will serve as government-wide payment and collection portals. Pay.gov, developed by Treasury's Financial Management Service's Electronic Money Program Office, will allow citizens, businesses and federal agencies to process transactions, such as government collection of fees, fines, sales, leases, loans and certain taxes, on the Web.

a) *What impact will the Pay.gov initiative have on the Service's volume, revenues and contribution to institutional cost?*

As with the "E-Sign" initiative, the likely impact is small in the short term. Many businesses already make these types of payments outside the mailstream (i.e.: direct debit, EFT). The impact of SOHO-type businesses and consumers switching to electronic payments may increase in the longer term. As is the case with other electronic payment systems, however, it appears that there is little inclination among mainstream consumers to use electronic alternatives in the short term.

88. You reported that the Service delivered 32 percent of packages generated by electronic commerce in the 1998 holiday period.

a) *How was this figure developed? If available, please report the comparable figure for 1999.*

The reference of 32% was derived from studies developed by Zona Research of California. At this time, there is no certifiable data on the percentage the USPS delivered for 1999.

b) *What specific marketing strategies have you implemented to make electronic commerce providers and customers aware of the products and services offered by the Service as a delivery option for the 2000 holiday season?*

There are three activities that will be employed that will create awareness to both providers (commercial customers) and their customers.

For commercial customers (providers) the current USPS sales organization will be working closely with both traditional retailers and pure e-tailers by assisting them in understanding USPS package services and which product or combined products best meet their needs for the distribution of merchandise.

The web page - USPSPRIORITYMAIL.COM - was designed specifically for commercial customers in support of managing the return process that

creates approximately a 20% - 40% return of merchandise, depending on the particular item.

The third activity that will educate and create awareness for residential customers (consumer) is built around advertising. USPS (E/PS) package service advertising during the holiday period will focus on Priority Mail as the service of choice if you are ordering on-line and receiving your item at home. Additionally, this advertising will be aligned with a very well known retailer/e-tailer. The intent of this joint advertising is to communicate to the consumer that you are as good as the company you keep. The call to action will be "if a well known retailer/e-tailer uses the USPS, why don't you?"

c) *Has the number of package delivery firms increased over the last year? If so, by how many? Does the Postal Service consider Federal Express Home Delivery to be a serious threat to its package products business? Please discuss what strategies if any the Service is pursuing to maintain its market share in the face of increased competition from package delivery firms.*

The overall package market has had few entries into the delivery segment. UPS, Fed Ex and the USPS still remain the major providers for package delivery. Fed Ex's Home Delivery certainly will have some impact on the USPS package delivery. Their existence is still considered as a start up venture and little is known as to their primary target market. It should be mentioned, however, that although not new to the package delivery business, Airborne Express and Emery Worldwide are two firms that have intensified their activities in this area by selecting the Postal Service as their delivery agent for airborne@home service and Emery@Home. Both firms have opted to take advantage of the workshare discounts program authorized by the January '99 rate case. That same program has triggered a growth spurt in the consolidator industry as new firms have sprung up in various regions of the country.

Overall, the US Postal Service will continue to pursue a strategy that focuses on price as our competitive advantage. This is the message that both our sales organization and advertising will communicate. While Priority Mail will be the base product of our offer, as a result of the pending rate adjustment, a bundled approach will be used as appropriate and include the cost savings that Parcel Select can offer.

d) *If the number of entrants in the package delivery sector have increased has the Service detected increased competition on price and/or service? Please explain your answer.*

Primary competition continues to be UPS which has the lion's share of the ground parcel market.

89. It has been reported that the Service is testing the use of First-Class postage stamps as a form of "micropayment" device. That is, to use stamps as legal tender to pay for non-postal goods and services.

a) *Please provide a description of this use of First-Class postage?*

***USPS MicroPayment$_{TM}$* is a service currently being tested that allows marketers to design reply cards-- either Business Reply Mail (BRM) or Courtesy Reply Mail (CRM) cards-- advertising low price point offers, whereby customers can pay for the item(s) by affixing First Class postage stamps on the card itself. Under the *USPS MicroPayment$_{TM}$* program, vendors would be allowed to receive payments for goods and services, priced between $1 and $10, in the form of postage stamps affixed to a postcard or a similar item. The vendors would return the stamps to the Postal Service and receive refunds in an amount less than the face value of the stamps.**

USPS MicroPayment$_{TM}$ *supports the core mission of the Postal Service by providing efficient ways for businesses and consumers to transact business through the mail.*

How and to what extent will the Service benefit from the use of postage for payment?

The Postal Service benefits in several ways by offering the* USPS MicroPayment$_{TM}$ *service to businesses and consumers.

Customer Demand

The Postal Service benefits from this new service by responding to customer demand. Many Postal Service business customers are in need of a secure, easy, and convenient payment system that would allow them to offer a safe and convenient transactional process for low price point merchandise offerings. Consumers benefit as a result of having an alternative to enclosing cash, writing small dollar value checks, or using credit cards for these small price point purchases.

New Revenue

***USPS MicroPayment* will benefit the Postal Service by creating a new revenue stream that enhances the ability to keep price increases to a minimum. Revenue from the *USPS MicroPayment$_{TM}$* program comes from several sources.**

The first results from advancing retail sales of postage stamps to replenish stamp stock used for *USPS MicroPayment$_{TM}$*, which accelerates the purchase frequency and total gross sales of retail postage stamps. The total gross sales of retail postage stamps minus the redemption of the affixed postage equals the marginal contribution, which offsets processing and operational costs.

Another form of new revenue comes from the generation of new incremental BRM and CRM volume. Increased volume is generated as a direct result of higher response rates from consumers, when offered the convenience of the USPS *MicroPayment$_{TM}$* option.

Additional revenue can also be realized as marketers choose to use the Postal Service as the delivery mechanism for the fulfillment of the outbound merchandise.

New volumes and revenues can be derived as a result of product fulfillment, including follow-up correspondence and/or additional offerings to satisfied customers.

Has micropayment by postage been subjected to the New Products Review Process?

***USPS MicroPayment$_{TM}$* has been subjected to a rigorous review process conducted by a cross-functional review team.**

Appropriate functional areas participated in the review process for this potential new service, including Marketing; Directives Management; Inspection Service; Mail Preparation and Standards; Post Office Accounting; Business Evaluation; Stamp Services; Classification & Product Development; Chief Counsel, Marketing; Chief Counsel, Rates and Classification; Administration & Records; National Accounting; and Field Operations.

Has the Service consulted with any executive agency such as the Treasury Department as to whether the use of postage in this manner is appropriate?

The Treasury Department has informed us that the *MicroPayment$_{TM}$* program does not violate any Treasury regulations. A criminal statute, 18 U.S.C. § 336, arguably could be read to criminalize the use of postage stamps as currency for obligations of less than $1. This law was enacted in 1862 to address concerns about the impact of the Civil War on the supply of currency. Although this law became archaic well over a century ago, as a matter of caution, we are not accepting payment for obligations of less than $1 until we obtain an opinion from the Department of Justice confirming that it would not propose to enforce 18 U.S.C. § 336 against a

participant in the *MicroPayment*$_{TM}$ program.

90. There are indications that for FY 2000 the Postal Service revenue will be well below plan.

a) *Please provide a detailed breakdown of the revenue variance from plan by class of mail.*

Postal Service FY 2000 Revenue by Major Classes of Mail

Mail Class	Prelim. Actual	Plan	Variance	%
First-Class	35,516	36,031	(515)	-1.4%
Priority	4,837	4,816	21	0.4%
Express	996	990	7	0.7%
Periodicals	2,171	2,199	(29)	-1.3%
Standard Mail (A)	15,193	15,325	(132)	-0.9%
Standard Mail (B)	1,913	1,959	(46)	-2.4%
International	1,658	1,677	(19)	-1.2%

(Millions of dollars)

b) *With respect to each class of mail, including underlying market trends, please discuss the major factors which led to the revenue variance.*

There was revenue growth in every major category and overall growth versus SPLY was 3.1%. Growth was slightly below the level in the plan despite the fact that a strong economy should have aided volume and revenue in most or all classes.

Within First-Class, however, single piece mail fell. This accounted for over a half billion dollars of the revenue shortfall. A number of factors seemed to influence this. There was weakness over most major business segments, including the financial services sector and publishing. Financial services consolidation, changing business practices, and electronic bill payment may all have contributed to the shortfall.

Periodicals finished 1.3% below plan, reflecting the delayed impact on their businesses of reduced sweepstakes marketing.

Standard A growth was negatively affected by advertisers reorienting their marketing strategies and at the beginning of the year by sweepstakes publicity. Nevertheless, it finished the last three quarters at or above GDP growth and ended the year just 0.9% below plan.

Parcel post revenues were 5.3% below plan principally reflecting the lower yield from drop-shipped parcels while retail parcels dropped substantially.

91. The Subcommittee is interested in the status of the supplier diversity program.

a) *Please provide an update on the Service's efforts to target advertising dollars to minority communities and facilitate the use of minority vendors.*

Recognizing the significance of these specialty markets, the Postal Service is making an aggressive effort to better understand and, as a result, serve these constituencies. For the first time ever we awarded three of the seven contracts that make up the core of our National Advertising Program to multicultural businesses. The overall contractual packages span five years. One contract was awarded to Chisholm Mingo, a minority business. Chisholm will focus on the African-American sector. A second went to Asianese, a minority /woman owned business that will address marketing issues within the Asian sector. A third went to Bravo, a firm that will focus on Hispanic marketing support. Bravo is not purely a minority-owned business; it is a subsidiary to a larger firm, but it is minority managed.

We've also added an overall "diversity" focus and flavor to our general advertising programs and strategies.

b) *Please provide an update on the Service's efforts to involve more minority businesses in purchasing.*

Let us say, at the outset, that our record on supplier diversity is a good one. Because our business and financial challenges are more similar to those of the private sector than those of government agencies, the Postal Service has adopted more of a private-sector approach to supplier diversity. That approach is based on strengthening our supplier base by reaching out to identify strong suppliers and providing them with opportunities to compete for our contracts. When we benchmark our results against either the public or the private sectors, we find ourselves clearly among the leaders using small and woman-owned businesses, and above average with regard to minority businesses. We must point out, however, that direct comparisons are difficult; there are wide differences among the data (and the bases for the data) available for comparison. Nevertheless, we believe our record shows we are committed to continuous improvement.

We have a wide range of programs and efforts aimed at promoting the involvement of small, minority and woman-owned businesses in our purchase opportunities. We maintain close relationships with a number of

the national associations and their affiliates that support supplier development and diversity throughout the country. These include National Council of La Raza (NCLR), National Urban League (NUL), United States Hispanic Chamber of Commerce (USHCC), Organization of Chinese Americans (OIC), Women Business Enterprise National Council (WBENC), National Association of Women Business Owners (NAWBO), Business Women's Network (BWN), US Pan Asian American Chamber of Commerce (USPAACC), National Congress of American Indians (NCAI) and National Minority Supplier Development Council (NMSDC). We actively support and participate in a number of workshops sponsored by these organizations in addition to those sponsored by members of congress, state and local governments. We maintain a WEB page that addresses the small, minority and woman-owned business communities and provides information on purchase opportunities as they arise, on contact points, on how to do business with us, etc.

One of the ways we have strengthened our commitment has been by clarifying and strengthening our subcontracting policies. Suppliers competing for high-dollar value contracts are now required to tell us, before award, how they plan to subcontract with small, minority and woman-owned businesses. Reporting requirements have also been strengthened, and although final figures are not yet in (see our response to question c, below) we have begun to see real results from this policy change.

Internally, we have revised and broadly disseminated a 5-year Supplier Diversity Plan that establishes organization-wide goals. We include effort-type objectives for our buyers in their annual performance goals, provide mechanisms for identifying firms and we maintain a list of "proven" minority and woman-owned businesses. Annually, buyers are now required to complete between 2 and 4 hours of supplier diversity training, and we frequently conduct training sessions for both our employees (including supplier diversity and diversity coordinators in addition to our buyers), and the supplier community.

Our field offices have implemented an initiative to add at least one minority/woman-owned business to our supplier base each year. This has been tremendously effective in increasing the number of minority and woman-owned businesses in our supplier base.

One other noteworthy activity bears mention. We launched a pilot program among our buying activities in Southern California, in order to examine and improve on program effectiveness. The responsible team recently completed this pilot effort, documented results, and is working to replicate successes in northern California. On a national level, we are working to

extract specific practices and successes and to spread them throughout the Postal Service.

c) *Please provide the following statistics on supplier for FY1999 and 2000.*

Contracts worth in millions of dollars	Number awarded to minority contractor	Total awarded
1 to 100		
100 to 200		
200 to 300		
300 to 400		
Greater than 400		

We will address our direct contracting efforts in this response. We do not yet have year-end data on our efforts to promote subcontracting with small, minority and woman-owned businesses, but we will provide data on this effort running through the 3rd quarter of the year. We will discuss the credit card results separately in answer to question 91-f.

The results of our "direct" contracting with small, minority and woman owned businesses are shown below. Both our total number of actions and the dollars we've contractually committed during Fiscal Year 2000 are markedly lower than in 1999. This is due, in large part, to the "management challenge" to reduce costs that applied throughout the year. The adjusted totals reflect actions that we exclude from the computation of supplier diversity statistics, such as mandatory sources (e.g., awards statutorily required to be made to the blind and handicapped under the JWOD program), and foreign awards where the work is to be performed abroad. Our computations are based on the "adjusted" actions and dollars.

	Overall Awards			
	Total Actions	Total $$	Adjusted Actions	Adjusted Dollars
Y-2000	55,830	$7,189.4M	55,285	$7,027.5M
Y-1999	64,117	$9,113.2M	59,571	$8,651.9M

Total actions in Fiscal Year 2000 are down almost 13 percent, with dollars down approximately 21 percent. This decrease is largely attributable to the "management challenge".

Awards to Minority Businesses

	Actions	% of Total	MBE$$	% of Total
Y-2000	4,939	8.93%	$336.8M	4.79%
Y-1999	5,888	9.88%	$363.6M	4.20%

The number of actions with minority businesses is down somewhat, a function of the fewer overall actions this year. Similarly, dollars are down somewhat, as well, but the percentage of dollars that went to minority businesses reflects a statistically significant increase.

Awards to Woman Owned Businesses

	Actions	% of Total	WBE$$	% of Total
Y-2000	6,131	11.09%	$488.7M	6.95%
Y-1999	6,598	11.08%	$446.6M	5.16%

For woman-owned businesses, actions are lower this year, again as a result of the reduction in overall actions, but both absolute dollars awarded and dollars awarded as a percentage of total dollars increased significantly.

The summaries above are presented in the format in which we capture the data and which we typically use for reporting. The three legacy systems we use to collect and track the data don't currently yield stratified data in the format you suggested.

As noted above, these figures do not include year-end data on our efforts to promote subcontracting with small, minority and woman-owned businesses. When we revised our policy on promoting subcontracting we also developed a "reporting tool" for affected suppliers to use. That rollout is not yet completed but considerable progress has been made. For example, through the first 3 quarters of Fiscal Year 2000, some 10,555 subcontracts worth more than $107 million went to minority businesses, and some 6,056 subcontracts worth $97.5 million went to woman-owned firms. There are now 329 suppliers submitting quarterly subcontracting reports as contrasted to 184 at the end of 1999.

d) *What improvements have you made in results and where do you see opportunities for further improvement?*

As noted above, we've seen an increase in the dollars being placed with both minority and woman-owned businesses as a percentage of total dollar commitments. These "increased results," in both cases, are statistically significant. We also view our renewed focus on subcontracting to be a success, with more subcontracts being reported, more prime suppliers submitting reports, and higher overall dollars reportedly being spent in the small, minority and woman-owned business communities.

e) *What impact, if any, has the "management challenge" to contain costs had on the supplier diversity program?*

Clearly, the "management challenge" focus has caused a reduction in both the number of transactions and the dollars contractually committed during Fiscal Year 2000. Contractual dollar commitments were down some 21 percent. The financial issues clearly led to some complement reductions in our buying organizations. We would like to emphasize, however, that we have not altered our commitment to supplier diversity or reduced the resources dedicated to the program. All the same, further reductions may well have an impact.

f) *Please discuss the results of your effort to encourage local buyers and credit card holders to promote consideration of small, minority, and woman-owned businesses. Please include statistics from the quarterly report on credit card transactions that tracks and monitors performance against small, minority, and woman-owned business goals.*

We've taken a number of steps and maintained continuing focus on encouraging all credit card buyers to consider small, minority and woman-owned business sources. We've revised Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, to emphasize this point. And the training video for credit card buyers was recently revised to include an emphasis on sourcing with diverse suppliers. We believe these efforts have borne some fruit, but we are striving to continue our educational efforts here.

In assessing results, we rely on data collected and compiled by the card-issuing bank, which provides a "flat file" from which we extract our data. The data typically spans from October 1 to September 30 of the following year, and is tied to the federal-wide fiscal year rather than the postal fiscal year.

According to the data furnished by the bank, there were approximately 1.04 million credit card transactions worth about $348 million in Fiscal Year 2000. This closely resembles last year's figures (approximately 1.03 million credit card transactions worth approximately $370 million). In terms of dollars, this is a relatively small portion of our contractual commitments.

During Fiscal Year 2000, 3.67 percent of these dollars went to minority businesses and 4.04 percent went to woman-owned businesses. Last year's comparative figures were 3.18 percent to minority businesses and 4.27 percent to woman-owned businesses. This is the third year we show improvement with minority businesses. However, last year's figures do show a marginal decrease in the percentage of credit card dollars going to woman-owned firms.

We should note that the bank is unable to provide any socioeconomic coding for some 4.25 percent of the transactions, which represents some

$15 million. Nevertheless, this is a significant improvement. During the first years of our relationship, the bank was unable to code more than 25 percent of the transactions. We have worked diligently with them on this issue. We continue to do so, and reporting of small, minority and woman-owned business data will be improved during Fiscal Year 2001. Currently, the reports are only available at the merchant level and the new reports will provide data at the transaction level. This change will help us to better target our training and sourcing efforts.

92. Last year you indicated that the Service was reviewing a WEFA consulting group report to the Postal Service titled "Forecasting Best Practices: Re-Engineering the Passive Process into an Active Management Tool "for specific practices that can be adopted by the Postal Service.

a) *Has the Service adopted any specific practices to its forecasting model based on the WEFA report or otherwise enhanced its forecasting model since last year? Is so, please explain how the model has been improved.*

After conducting a thorough review of the preliminary report, the Postal Service concluded that there was limited potential for improving the quality of our forecasts. This is not surprising considering the sophistication and complexity of the current models.

The Postal Service's forecast models are under continual internal review, and face intense scrutiny in regulatory litigation before the Postal Rate Commission. As a result, the Postal forecasting models are among the most sophisticated and reliable forecast models in the country. The models were developed, under contract, by internationally renowned economists widely recognized as preeminent econometricians. As part of its ongoing process of continuous improvement, the Postal Service has improved its measurement of seasonal influence and competitive prices in the model. The Service completely revamped its forecasting of automation mail as part of its reclassification effort . Another refinement was made to the treatment of the lagged response of mail volumes to changes in postal prices. The models now include a forecast of return receipts.

93. In the last omnibus rate case the Service greatly overestimates its cost for "other programs" by as much $2.5 billion.

a) *Please provide for the record a table indicating the actual and projected FY 2000 cost for each of the programs in the "other programs" category in Docket No. R2000-1.*

Refer to response 82(a).

b) *Please provide an explanation for the variance from plan for these specific programs or items.*

The overwhelming explanation for the variance from plan for other programs is the Business Assessment Review, which reduced all programs by a target amount. The Business Assessment Review and follow-up requests were efforts to hold spending to a minimum. All parts of the Postal Service were given targets and it was left to the individual parts on how to achieve those targets. As such, individual explanations or strategies for how the reductions were applied were not requested nor supplied. The large exception to this was the expenses for the Priority Mail Network; the accruals for the ongoing contract issues with the contractor accounted for the increase.

c) *Do you believe that your effort to heighten the awareness of program managers for the accuracy of their estimates, especially as they pertain to a rate filing has had impact, contributed to improving the estimates? How will the Service further improve its estimation of program costs in the future?*

Yes, the estimates have been improved. The Postal Service will continue to focus on heightening the awareness of program managers.

94. *Please discuss your recent efforts to prevent sexual harassment. Include in your response a discussion of new and continuing efforts to educate employees?*

The sexual harassment program is designed to provide awareness training to all Postal employees. In addition, the process involves developing training sessions for new facilitators and developing refresher training for present facilitators. Efforts are made to identify and provide information on the program through: posters, publications, videos, public service announcements, articles for print for identifying and providing sources of information on the subject. The goal is to keep sexual harassment prevention in front of the work force on a continuous basis.

In addition, the Law Department continues to issue its quarterly Briefings: Developments in Sexual Harassment Law. This publication is distributed to all Officers and is posted on-line for access by supervisory and managerial personnel to better understand legal developments in this area and better understand their obligations toward their employees.

One of the six questions on the Voice of the Employee (VOE) survey that make-up our compensable index score for VOE is on sexual harassment, which advances both tracking and accountability for improvement. Question 12c states on the survey states: In the past 12 months, I have personally been sexually harassed by a postal employee. (yes/no)

Sexual Harassment Prevention Accomplishments and Plans for the Future

Diversity Development has taken several steps to prevent and eliminate sexual harassment in the workplace. In fiscal year 2000, all employees were required to take sexual harassment prevention training. EAS employees were required to take two hours of training and craft employees were required to take one hour of training.

Diversity Development's web site addresses Sexual Harassment Prevention by providing a tool kit, a vendor resource guide and film scripts. In addition, the web site includes the Employees Guide to Understanding Sexual Harassment, Publication 553 (which was published and distributed to all employees at their homes in April 2000) and the Manager's Guide to Understanding Sexual Harassment, publication 552 (which was issued in June 1999 was sent to all supervisors). In the near future, the names of the 169 certified sexual harassment prevention facilitators will be placed on the web site by location; in addition, new facilitators will be trained. The role of the facilitator is to conduct prevention training as needed nationwide.

Diversity Development's plans for the future include new prevention posters (21B & 21C) which will be published and distributed nationwide. These posters are in for revisions at this time. It is also planned to publish these posters in Postal publications as well as articles on prevention. In addition, two public service announcements based on the new posters are in for final revision. These tools will also be distributed nationwide. These efforts will give unified messaging to the work force and to our customers. It is planned to broadcast the public service announcements on PSTN, in postal lobbies and on national television.

All training materials have been updated and the film that accompanies the materials has been updated and sent for closed captioning.

EEO Compliance and Appeals is developing role-play-based training for supervisors, managers and Human Resources professionals that will allow them to practice their communication skills in preventing sexual harassment by addressing "low level" improper conduct of a sexual nature in our work place.

How do the number of complains of sexual harassment in FY 2000 year-to-date compare to the same period last year?

Three hundred and two formal EEO complaints were filed in fiscal year 1999. Two-hundred and sixty-one formal complaints were filed in fiscal year 2000.

Questions to Postmaster General Henderson from
the Honorable Chaka Fattah
Subcommittee on the Postal Service
General Oversight Hearing
Tuesday, September 19, 2000

1.The postal service currently has an a contract with Emery Worldwide to carry priority mail packages. Please detail your contract with Emery, in terms of length of contract, amount of packages carried and cost. What problems or challenges have you experienced with this arrangement? What have you learned about the Emery experience that might be helpful with your FedEx plans? Will FedEx be providing surface transportation to pick up Priority Mail, as presently served by the Postal Service Motor Vehicle Craft?

On April 23, 1997, the U.S. Postal Service awarded a fixed-price performance-based service contract to Emery Worldwide Airlines, Inc., for integrated components of a time-definite, two-day Priority Mail network. The purchased components are required to meet or exceed an on-time service performance standard of 96.5% for the first phase (Phase 1 pilot) of a national network (which includes approximately one-third of Priority Mail processed annually). These components consist of transportation, distribution, logistics/network management, information systems supporting delivery confirmation, auditable workload, and performance measurement.

The contract provided for a base performance period of 58 months (through February 23, 2002) and included options for two 36-month extensions. In August 1998, USPS and Emery entered into an agreement to renegotiate the fixed prices for nearly all of the purchased components of the Phase 1 network. However, differences over Emery's methods of allocating costs to the contract ensued, and the parties were unable to reach agreement on a fixed-price adjustment for calendar year 1999. USPS and Emery considered several approaches for resolving these differences, but none proved successful. After several months of discussions, the USPS and Emery mutually agreed in November 2000 to end the contract approximately 14 months ahead of schedule on January 7, 2001.

During FY 1999 Emery processed 435.4 million pieces of Priority Mail for a total cost of $490.6 million ($1.13 per piece). During FY 2000, 463.4 million pieces were processed for $514.6 million ($1.11 per piece).

What problems or challenges have you experienced with this arrangement?

The overriding goal of the Phase 1 pilot was to improve service within a closed loop system. USPS also wanted to maintain its market status as a high quality, low cost provider of a consistently reliable product. Emery

moved forward quickly, opening 10 PMPC sites to serve a 16-state area in the Northeast U.S. and Florida. The first site opened in 1997 and Emery completed site acquisitions, staffing and equipping the network by September 1998. Emery has made the level of steady progress to the mid-90s service scores for mail originating and destinating within the Phase 1 area. However, primarily because of service problems connected with Emery's commercial air carriers, the scores for mail destinating outside the network have kept Emery from achieving overall contract performance standards.

One of the principal lessons learned from the Emery contract has been that economically the USPS cannot afford to apply dedicated resources to one product line and expect that product to maintain its costing. What is required is a network that focuses on Priority Mail service, and takes advantage of economies of scale. USPS has also learned, however, that two-day service is possible. Emery's performance has motivated postal operational managers to reexamine how they handle, process, transport, and deliver Priority Mail. Service today nationwide is significantly better as a result.

At this point, no agreement has been reached with FedEx on specifics regarding the transportation of Priority Mail. Each side is continuing to perform internal staff analyses and to explore a range of options. Accordingly, it would be premature for the Postal Service to comment.

2.In addition to this subcommittee, the House Judiciary Committee has sent a letter to the Department of Justice requesting that they look at the competitive issues raised by any alliance between the postal service and FedEx. What are your thoughts on such a review and when do you expect to have a formal plan?

We will cooperate fully with the Department of Justice. Any agreement that may be reached with FedEx will have to steer clear of problems under antitrust or fair competition principles. Neither side has any interest in bringing forward an agreement that would present these kinds of problems, which would negate the deal. We continue to work toward a possible agreement but cannot predict how long negotiations will continue.

3.In the recent Commission report on a Safe and Secure Workplace, it was noted that postal workers are six times more fearful than those in the national workplace and believe they are at greater risk of workplace violence from coworkers. Postal employees also are more likely to agree that managers and supervisors try to provoke employees to violence. Even the IG noted that postal managers can be intimidating. What is your reaction to these findings and what steps will or have you taken to address these concerns?

4.The Commission also issued 10 major recommendations to address potential underlying causes of workplace violence and tension. What are your thoughts on them and will you implement any? What is your timeframe?

See answer to question 15 above. The Postal Service was very pleased with the quality of the report but concerned about the findings that significant numbers of employees fear for their safety, find managers intimidating, or distrust management. We expect to implement many of the recommendations during this fiscal year.

5.What action have you taken to reduce the number of employee grievances pending at Steps 1 and 2? According to a 1997 GAO report, grievances at these levels had risen to almost 90,000.

Both the JCIMs with APWU and NPMHU and the JCAM with the NALC are directed to the shop steward and the front line supervisor for use in insuring contract compliance. These manuals were negotiated with the intent of eliminating built-in time delays that inhibit resolution at the lowest step, rectify the ongoing problem of initiating grievances at the local level where the parties at the national level had already agreed to a solution, and to educate and provide guidance to the local parties on issues for the purpose of alleviating the need to file future grievances.

6.What is the status of grievances awaiting arbitration by a third-party arbitrator - backlogged grievances? According to a 1997 GAO report, these grievances had increased to almost 70,000.

The number of cases pending arbitration rose to a high of approximately 123,000 in 1999, but have been reduced to 87,000 at the end of FY2000. This downward trend has been the result of process changes negotiated with the APWU and NPMHU in 1998. Additionally, an aggressive review of cases pending arbitration with the NALC has contributed to the trend.

7.I noted from the recent Senate oversight hearing that you are in complete support of S. 2686, the Senate version of a bill to update the way that nonprofit postal rates are calculated. As you know, H.R. 4636 is the House version of the Senate bill and has been cosponsored by Congressmen Owens, Davis, Waxman, Hoyer, and others. Would you also lend your support to H.R. 4636?

The Postal Service was pleased to see that this legislation was enacted into law.

8.At a spring hearing of the House Appropriations Treasury/Postal subcommittee, you expressed confidence that updated cost projections could be used to help lower the proposed rate hikes for periodical rate mailers to something in the single-digit range instead of the 13-15% proposed rate increase. Have you found

any success in these efforts? Will you be able to hold down the increases for magazines?

During the litigation of the current rate case, we introduced cost reductions and methodology refinements that will reduce the upward pressure on the Periodicals rates, and allowed the Postal Rate Commission to recommend a single-digit percentage increase.

9.What is the postal service's total 2001 advertising budget? Of that total, what is the 2001 budget for advertising in the African-American, Asian-American and Hispanic markets. How does this compare to the 2000 advertising budget? Is this an increase or decrease in comparison to the 2001 budget? Provide side-by-side figures. If this is a decrease, what is your justification?

The total advertising budgets for FY 2000 and FY 2001 were $160.5 million and $160.0 million, respectively. The amounts budgeted in the second of these years to support multicultural advertising were roughly comparable, but like the total budget, smaller. The Postal Service treats more detailed breakdowns of advertising budgetary information as proprietary, and does not make it public. We would be pleased to discuss the questions with you personally, or with your staff.

QUESTIONS FOR THE RECORD
CONGRESSMAN STEVEN LATOURETTE

HOUSE OVERSIGHT HEARING
POSTAL SERVICE SUBCOMMITTEE
September 19, 2000

QUESTIONS FOR POSTAL SERVICE SUBCOMMITTEE HEARING-- 9/19/00

1. I've looked forward to this opportunity to learn the details of the proposed "strategic alliance" between the U.S. Postal Service and Federal Express Corporation. Although there have been numerous press stories on this proposal, there has been a lack of specifics available to us. At first glance and, again, with a minimum of unsubstantiated information available to me, I find it curious that a federal entity will be entering into a contract of this scale with a business without the benefit of competitive bidding. Can you elaborate on this point?

Response:

Over many years the Postal Service has actively discussed its air transportation network requirements to some extent with all potential suppliers, in an effort to keep all possibilities in view. The emergence of problems with the current Priority Mail network arrangements has made it necessary to move promptly to secure replacement airlift to maintain service for the public. The small number of firms with these types of nationwide systems makes it advantageous to pursue a negotiated contract, to get the needed service in place within the required time frame. Applicable procurement regulations for negotiated contracts are being followed.

2. Can you please outline for the Subcommittee the review and approval processes this proposal will be subjected to prior to its being finalized?

Response:

Over the course of the negotiations to date, the Postal Service has used both internal teams and expert consultants to evaluate possibilities, develop its own proposals, and analyze proposals received from FedEx. Negotiations for a possible air transportation contract are proceeding under direction of an assigned contracting officer as provided in procurement regulations. The overall process has included extensive discussions by the Postal Service's Management Committee and multiple briefings for the Board of Governors. Approval of a transportation contract would follow Postal Service procurement procedures, and any proposed agreement regarding FedEx access at post offices would be presented to the Board of Governors.

3. A recent GAO report made recommendations for improving the management and oversight of the Postal Service's E-commerce activities -- the need to maintain accurate information on the initiatives, to follow controls put in place for developing and approving these initiatives, and to provide complete and accurate cost and revenue data on these initiatives. What improvements will the Postal Service apply in conjunction with the approval and oversight of the proposed contract with Federal Express?

Response:

The recommendations regarding management procedures in this GAO report do not bear on the kinds of services under consideration here. Unlike the e-commerce service initiatives reviewed by GAO, the negotiations with Federal Express principally involve the transportation of mail under established mail classifications (Priority Mail, possibly some Express Mail and First-Class Mail). The Postal Service has had long experience with systems for developing, approving, and monitoring mail transportation contracts and for capturing and reporting air transportation costs. Other proposals regarding FedEx will be carefully evaluated and monitored to make sure that the public interest is protected, additional costs to the Postal Service are minimized, and any revenue stream is sufficient to compensate the Postal Service and to protect the interests of postal customers.

4. One possibility I've read about would entail FedEx boxes or counters being placed in post offices. Is this, in fact, under consideration? If so, would this option be available to other delivery services?

Response:

Yes, providing some kind of arrangement under which FedEx can receive items dropped off by its customers at post offices has been one of the topics under discussion. Such an arrangement, if concluded with FedEx, would be non-exclusive. The Postal Service would welcome similar discussions with other carriers.

5. In light of the recent legal dispute involving a contract -- of a much more limited scope --between the Postal Service and Emery, what assurances can you give that the proposed contract -- on a much larger scale—will not meet a similar fate?

Response:

While there cannot be absolute assurance about what the future has in store, the potential seems to be strong for an excellent match between what FedEx can provide and what the Postal Service needs for air transportation, so that a contract should prove to be financially advantageous for both parties.

Attachment Question #24

UNITED STATES
POSTAL SERVICE

July 18, 2000

Honorable John M. McHugh
Chairman
Subcommittee on the Postal Service
Committee on Government Reform
House of Representatives
Washington, DC 20515-6246

Dear Chairman McHugh:

As you know, we have pledged to periodically report to the Subcommittee on the Postal Service on progress being made to implement the recommendations of the Data Quality Study which was jointly sponsored by the General Accounting Office, the Postal Rate Commission, and the Postal Service.

In preparation for our July 25 meeting to review the Postal Services actions with respect to the study, I am sending you advance copies of the review materials. These are in the format agreed upon at the first review meeting held on January 19, 2000. An advance copy of the review materials is also being sent to Teresa Anderson, assistant director of the General Government Division of the General Accounting Office.

Sincerely,

for

Deborah K. Willhite

cc: Teresa Anderson
Assistant Director
US General Accounting Office
441 G Street NW, Room 2440
Washington, DC 20548-0002

UNITED STATES
POSTAL SERVICE

July 18, 2000

MR. STRASSER
MS. PEAK
MS. GIBBONS
MR. FOUCHEAUX
MR. GERMAN
MR. HAGARTY

SUBJECT: Summary of Data Quality Study Responses

Attached, for your information, is a copy of the latest summary of the Postal Service's ongoing response to the recommendations contained in the 1999 Data Quality Study. As agreed to in January 2000, a copy of this information is being sent to the Sub-committee on the Postal Service and the General Accounting Office and will be transmitted through Government Relations with a cover letter from Deborah Willhite.

J. Ron Poland
Manager
Statistical Programs

Attachment

cc: Jean Parris

475 L'Enfant Plaza SW
Washington, DC 20260-5000

Status of U.S. Postal Service (USPS) Actions on Data Quality Study (DQS) Recommendations
Organized by Starting Date of Recommendation Follow-Up

DQS Item #	Summary of Recommendation	USPS Status as of July 2000	USPS Comments
Recommendations addressed starting in FY 1999, or earlier			
1	Evaluate the quality of data produced by MODS	Being implemented	We will investigate the impact of using FY99 data, i.e., data gathered after the change in conversion factors.
13	Focus improvement efforts on making changes to operational systems so they provide data for both operations and rate making	Requires management consideration	We are currently implementing test sites of an Activity Based Costing model for operations, with the additional potential for use as an input to the rate making process.
17	Document TRACS sample design	Being implemented	Some new TRACS sample design documentation was filed in R2000-1. The rest will be completed in FY 2000.
19	Evaluate the quality of National Air and Surface System data used as a basis for TRACS samples	Being implemented	A preliminary evaluation has been conducted. A more thorough evaluation has been contracted for, with completion targeted for April 2001.
26	Consider implementing an activity-based costing system to analyze and track institutional costs	Requires management consideration	Completion of a nationwide system suitable for tracking institutional costs will require a systematic multi-year effort.
31	Record some DRPW data as "unknown" and allocate unknown data using data analysis	Being implemented	The addition of the Unknown category has been postponed until the PQ 3 FY 2001 DRPW release.
33	Update the special facility use study on an ongoing basis (mail processing space often changes)	Being implemented	Basic data are gathered but not yet analyzed; therefore they are not being used in the R2000-1 rate case.

Status of U.S. Postal Service (USPS) Actions on Data Quality Study (DQS) Recommendations
Organized by Starting Date of Recommendation Follow-Up

DQS Item #	Summary of Recommendation	USPS Status as of July 2000	USPS Comments
Recommendations addressed starting in FY 2000			
4	Replace or upgrade IOCS system to improve data quality. Improve data for distribution key shares.	Suitable for long term	In FY 2000, a study plan was developed. Contractor resources are being identified to conduct major portions of this project.
14	Collect, verify, and adjust detailed mailing statement data that would be provided electronically from mailers	Requires management consideration	Finance continues to monitor the progress of the Postal One project and any PERMIT System revisions. Rate applications will be developed when feasible.
15	Consider adjusting DRPW to sample mail not found on mailing statements at opening units rather than at mail exit points	Requires management consideration	Site visits to examine feasibility will be conducted in FY 2001.
24	Consider new operational sources of data such as the Point of Service system for rate making purposes	Requires management consideration	POS data are being tracked and compared to DRPW data. RPW and POS staff are in close communication on data requirements. POS data will be used in the RPW report, when feasible and warranted.
30	Revise DRPW sampling design (e.g., use mail exit points as primary sampling units)	Requires management consideration	RPW Characteristics release is planned for PQ 1 FY 2002. This is a necessary first step for initiating 100% MEP sampling in DRPW.

Status of U.S. Postal Service (USPS) Actions on Data Quality Study (DQS) Recommendations
Organized by Starting Date of Recommendation Follow-Up

DQS Item #	Summary of Recommendation	USPS Status as of July 2000	USPS Comments
Recommendations addressed starting in FY 2001			
6	Update the Curbline Access Test special study	Requires management consideration	We are investigating the use of delivery redesign data to replace other special studies where possible.
7	Update the Foot Access Test special study	Requires management consideration	We are investigating the use of delivery redesign data to replace other special studies where possible.
10	Consider using electronic time clock data to split carriers' in-office and street time	Requires management consideration	There is ongoing evaluation but no decision has been reached. Deferred until after R2000-1.
18	Adjust TRACS design to improve precision of estimates after the sample design is documented	Being implemented	Statement of work is currently being developed to conduct this evaluation, with completion targeted for April 2001.
22	Reexamine the retail area and identify sources of data that meet potential new data requirements	Requires management consideration	After R2000-1, we will consider this along with other work.
28	Measure precision of data on an ongoing basis and the sources of sampling errors	Suitable for long term	Statement of work is currently being developed to expand the model to additional cost pools and all subclasses, and compute CVs for FY 2000 UVVCs.
29	Gradually expand the simulation model to include other subclasses and cost pools	Suitable for long term	Statement of work is currently being developed to expand the model to additional cost pools and all subclasses, and compute CVs for FY 2000 UVVCs.

Status of U.S. Postal Service (USPS) Actions on Data Quality Study (DQS) Recommendations Organized by Starting Date of Recommendation Follow-Up			
DQS Item #	Summary of Recommendation	USPS Status as of July 2000	USPS Comments
Recommendations addressed starting in FY 2002			
11	Reexamine assumptions concerning capital and support costs.	Requires management consideration	This work could be performed after the completion of R2000-1.
20	Consider combining sampling for highway transportation and mail processing platform operations	Suitable for long term	Will be examined in FY 2001 to FY 2002 timeframe along with Activity Based Costing.
23	Determine if transaction driven self-service activities are attributable to products or groups of products	Requires management consideration	We will consider this after R2000-1along with other items.

Status of U.S. Postal Service (USPS) Actions on Data Quality Study (DQS) Recommendations
Organized by Starting Date of Recommendation Follow-Up

DQS Item #	Summary of Recommendation	USPS Status as of July 2000	USPS Comments
Recommendations completed			
5	Assess Delivery Redesign project data as replacement for IOCS/special study data.	Completed	
8	Update Street Time Sampling Study	Completed	New source of data.
9	Update the Load Time Variability special study	Completed	
25	Assess costs assumed to be institutional for possible attribution to subclasses	Completed	
27	Calculate and report precision measures	Completed	
32	Analyze impact of operational changes on ratemaking data systems, such as IOCS.	Completed	
34	Capture ongoing facility use survey data in a WWW environment	Completed	
36	Investigate information needed to accurately measure the effect of weight and other mail characteristics on costs	Completed	

DQS Recommendation: 1 Evaluate the quality of data produced by MODS
Date of Status: July 2000
Start Date: FY 1999
Background: The Postal Service's mail processing cost methodology makes use of MODS data on both workhours and piece handlings. MODS workhours are used both to determine the total labor expenses associated with a cost pool and in the estimation of volume-variability factors; MODS piece handlings are used only in the estimation of volume-variability factors. The two types of data are generated independently. The quality of MODS data is monitored on an on-going basis. Each accounting period, every manager of in-plant support reviews a summary report on MODS data. In addition, these reports are examined at headquarters, and the area MODS coordinators are queried about apparent anomalies. Errors identified in this manner are corrected. In May of 1999, Operations Technical Support sponsored the development of a standard training course for PCMODS, strongly emphasizing data integrity. Approximately 200 people nationwide receiving this training. Training issues, as well as data integrity issues, are addressed each year in the MODS Coordinators National Meeting.
Current Activity: Piece handlings in automated and mechanized sorting operations are derived from machine counts. Much of the data are, furthermore, automatically transmitted to MODS computers via the End of Run system (see updated M-32 MODS handbook). This is consistent with the Data Quality Study's recommendation that "where possible machine counts of the total cost driver values such as total pieces handled should be captured and used in the [volume-variability] Equations" (Summary Report at 76). Piece handlings in manual sorting operations are developed using weight or "downflow density" conversions. The conversion process will tend to introduce some error in the manual piece handlings, to the extent that the converted volumes deviate from the actual piece count. Data introduced in R97-1 indicate that the random errors in manual piece handlings were too "small" (in the sense of having a small variance) to materially affect the results of the volume-variability analysis. An Inspection Service audit of FHP volumes raised the possibility of large systematic errors in FHP (and therefore total piece handlings, or TPH, in manual operations) due to the application of outdated weight conversions or unauthorized local conversion methods. Dr. Bozzo's testimony in R2000-1 (USPS T-15) indicates that systematic errors in piece handlings (i.e., those common to all observations at a given site, or in the system as a whole) will cancel each other out in the Postal Service's estimation methods. Additionally, time trend terms in the volume-variability equations control for "drift" in the national weight conversion factors over time. The Postal Service has not yet had the opportunity to analyze data based on the updated national weight conversion factors, introduced in FY99. Workhours in MODS are collected from electronic time clock data. This method is consistent with the recommendations of the Data Quality Study for the collection of labor expenses (Summary Report at 75). The Postal Service does not make use of the full three-digit MODS operation detail, since it may not be operationally efficient to have clerks and mailhandlers "re-clock" for every change of MODS operation. The cost pools are organized around major work activities for which employees would normally re-clock. The Postal Service's volume-variability analysis is robust to potential errors in the MODS workhour data. Random errors in workhours are absorbed in the regression disturbance terms and therefore do not bias the analysis. The Postal Service's regression methods additionally control for systematic errors in the workhour data. The Postal Service's methods result in relatively low coefficients of variation, ranging from 2.3 percent to 7.0 percent (see Docket No. R2000-1, USPS-T-15 at 119-120), suggesting that errors in MODS workhours have relatively small variance.
Future Activity: Evaluate the impact of using FY99 data on mail processing costs.
Resources: Recommendation addressable by current and anticipated staff and administrative budget.

DQS Recommendation: 13 Make Data Quality Changes to Operational Systems for Operations & Rates
Date of Status: July 2000
Start Date: FY 1997—ABC Model; Other systems--Ongoing
Background: This recommendation was included in the AT Kearney study. The Postal Service had already begun development of an Activity-Based Costing System for Processing and Distribution Centers (P&DCs) to obtain better information at the plant level with which to manage operations. The Postal Service consistently reviews its data systems for improvement opportunities.
Current Activity: We have been participating in integration efforts with the Information Platform and Process Control and Standardization groups in the development of data requirements needed to support near real time operational decision making. In addition, Activity-Based Management staff is working with Operations to develop an Activity-Based Costing System to support operations, with the additional potential for use as another input to the rate making process. The Activity-Based Costing P&DC model developed in Nashville, TN began rollout to Memphis, TN in late January 2000. We expect to complete Memphis, TN by the end of July 2000. Significant enhancements to automating the model are being implemented at this stage. During this rollout we have developed a methodology for aligning the ABC model with the Process Control & Standardization (PC&S) structure (where implemented.)
Future Activity: Prior to implementation, we plan to roll out to an additional test site. Beyond that, we plan to implement a training program aimed at distributing the learning to the Areas and Districts so that they can implement future models with assistance from Headquarters. We will continue to support the Information Platform and the efforts for real-time operational information for decision making. We will also continue to update the data quality of the reporting systems within the Activity-Based Management area.
Resources: Recommendation addressable by current and anticipated staff and administrative budget.

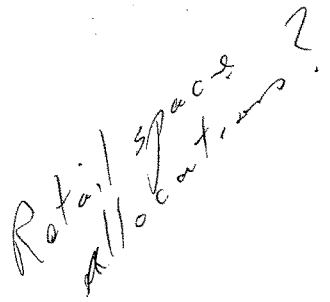
DQS Recommendation: 17 Document TRACS sample design
Date of Status: July 2000
Start Date: FY 1999
Background: In preparation for filing R2000-1, the documentation for Highway, Passenger Air and Network Air sub-systems was completely revised to provide comprehensive, concise documentation of the sample designs, estimation formulas, processes and procedures.
Current Activity: Comparable documentation for Amtrak and Rail is under development. These are scheduled for completion in FY 2000.
Future Activity: None
Resources: Postal Service staff: about 1.5 staff years have already been expended in developing this documentation, and another 0.5 staff year is needed to complete this activity.

DQS Recommendation: 19 Evaluate the quality of National Air and Surface System (NASS) data used as a basis for TRACS samples
Date of Status: July 2000
Start Date: FY 1999
Background: A preliminary evaluation has been conducted. Furthermore, NASS data quality is being validated on an ongoing basis through quality assurance efforts during the TRACS sample selection and estimation processes.
Current Activity: None
Future Activity: A more extensive evaluation is planned for FY 2001. This work has been contracted for, and is scheduled for completion by March 2001.
Resources: Postal Service staff: two staff will devote approximately one month each to this evaluation. Contractor resources: FY 2001 - $75,000, as part of the Headquarters program, Rate Case Data Quality.

DQS Recommendation: 26 Consider Implementing an ABC System for Institutional Costs
Date of Status: July 2000
Start Date: ABC P&DC study began in August 1997
Background: The Postal Service instituted the ABC model primarily to provide plant managers with a better tool to manage operations. Additionally, it is hoped that the model can be used to measure cost savings of certain programs such as Process Control and Standardization (PC&S) and Breakthrough Productivity, with the additional potential for use as another input to the rate making process. Completion of a nationwide system suitable for tracking institutional costs will require a systematic multi-year effort.
Current Activity: The Activity-Based Costing P&DC model developed in Nashville, TN is being rolled out to Memphis, TN with an expected completion date of July 2000. During this rollout, it is planned that the ABC model will be aligned with the Process Control & Standardization structure. Any institutional costs that are charged to the plant are accounted for in the model.
Future Activity: Prior to implementation, we plan to roll out to an additional test site. Beyond that, we plan to implement a training program aimed at distributing the learning to the Areas and Districts so that they can implement future models with assistance from Headquarters.
Resources: Recommendation addressable by current and anticipated staff and administrative budget.

DQS Recommendation: 31 Record some RPW data as "unknown"
Date of Status: July 2000
Start Date: FY 1999
Background: The Domestic RPW sampling system (DRPW) has no provision to record a mailpiece as an unknown category. The standard policy is for data collectors to write down the information observed on the piece, photocopy it (if possible) and refer the matter to their managers or the Statistical Programs Service Center. The piece, as needed, is then recorded in the data system later, when possible. At one (and only one) site visit, members of the Data Quality Study staff observed a data collector recording a mailpiece he/she didn't know how to classify. The data collector told the observers that he/she didn't know how to record the piece, but was going to "guess", because that's how he/she had been "instructed." On the basis of this one observation the DQS recommendation was made to add a category choice of unknown. Note that during the drafting of the Data Quality Study, we disagreed with this item's importance because (a) it was based on observing only *one* data collector and (b) at no time have data collectors ever been instructed to "guess" mailpiece characteristics. This issue has been or is being addressed by the following: (1) To the extent there was really a systematic problem, it was greatly alleviated with the January 1999 release of RPW. In this release, we stopped asking for First-Class presort and Standard Mail (A) rate category detail; (2) RPW Decision Tables have been released that supply explicit guidance on mail categorization; (3) this issue will also be dealt with by pursuing an RPW Characteristics project; and, (4) the addition of an *Unknown* category will be considered for a Postal Quarter I Fiscal Year 2001 release.
Current Activity: RPW Characteristics software release is planned for a PQ 1 FY 2002 release. A final Decision Table for domestic mail will be released before end-of-year FY 2001.
Future Activity: Work on RPW Characteristics. The addition of the Unknown category has been postponed until the PQ 3 FY 2001 DRPW release.
Resources: Recommendation addressable by current and anticipated staff and administrative budget.

DQS Recommendation: 33 Update the special facility use study on an ongoing basis. Capture ongoing facility use survey data in a WWW environment
Date of Status: July 2000
Start Date: FY 1999
Background: The special facility study, which is used to establish variability of facility space, was last updated in 1992.
Current Activity: The Postal Service is currently updating the facility study. Data have been captured via a webpage. This has afforded cost savings and provided a model for future data collection efforts. However, this effort does not entail real time, daily, or even annual updates via the WWW.
Future Activity: Given sufficient resources, and upper management approval, Activity Based Management believes the facility study should be updated every third or fourth year. Mail processing space does not change fast enough to justify more frequent updates.
Resources: Recommendation addressable by current and anticipated staff and administrative budget.



DQS Recommendation: 4 Replace or upgrade IOCS to improve data for distribution key shares
Date of Status: July 2000
Start Date: FY 2000
Background: The In-Office Cost System (IOCS) is a probability sample of employee's time, developed in the late 1960's. Although the basic method of observing employees from certain offices at a specific instant in time remains much the same as when the system was developed, there has been a continual evolution of the system in terms of how and what data are recorded. The concern of the DQS Team was that, with automation and mechanization, a smaller proportion of employee time is spent actually handling mail, and when employees are handling mail, they are frequently handling mixed-mail (mail of various subclasses). They also expressed concern that IOCS collects information about tasks within a MODS operation rather than information about the output of that operation. Two options were provided for improving the distribution key shares: replace IOCS with a new sampling system; or, retain IOCS with additional sub-sampling of mixed mail.
Current Activity: The Postal Service has initiated a project to evaluate and follow-up on this recommendation. The project team has decided to retain IOCS, and has developed a list of initiatives to improve distribution key shares. Many team members are heavily involved supporting the R2000-1 rate case, so studies necessary for implementation of these initiatives are being deferred until FY 2001.
Future Activity: In FY 2001, several studies will be initiated to improve distribution key shares. Discussions to date have identified six potential study areas: update questions 18 and 19, which relate to the activity of the employee, and type of operation to which they are assigned; examine the feasibility of changing questions 20-23, which address the type of mail the employee is handling, particularly for allied and platform operations; assess the feasibility of using container placard information to help identify the type of mail in a container; evaluate the adequacy of sample size by MODS cost pools; evaluate alternatives to CAG for stratifying offices, like complement size; and, explore the potential of capturing relevant mailpiece information using automation technologies. Some of these studies will be completed in time to incorporate their recommendations in IOCS data collection procedures for FY 2002. Others may take more than a year to complete.
Resources: Postal Service staff: approximately 4-5 will devote 25% of their time to this project. Contractor resources: FY 2001 - $750,000; FY 2002 - $200,000, as part of the new Headquarters program, Rate Case Data Quality.

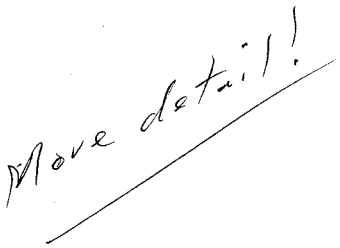
DQS Recommendation: 14 Collect mailing statement data electronically
Date of Status: July 2000
Start Date: FY 2000
Background: The Postal Service has an ongoing effort called Postal One that will establish a direct electronic connection between mailers and USPS information systems. It is expected this system will provide real-time information on business mail entries, as well as potential access to detailed mailing statement data from manifest mailers, not currently available in any postal data system. This system is currently in the early stages of its implementation. It is hoped the data available from Postal One will either (a) if already available, be available more timely or (b) if not currently available, be useful for rate case analysis.
Current Activity: Postal One is a Marketing project and is a key part of the Information Platform. Finance is monitoring project progress in these areas.
Future Activity: Continue to monitor project progress; establish requirements, where possible, to increase rate case data quality (e.g., collect manifest mailers' detailed data.)
Resources: Recommendation addressable by current and anticipated staff and administrative budget.

DQS Recommendation: 15 Consider adjusting RPW to sample at mail opening points
Date of Status: July 2000
Start Date: FY 2000
Background: Domestic RPW sampling (DRPW) is, for the most part, conducted at mail exit points. (Although data for certain special services is sampled from originating window retail units.) The Data Quality Study recommended we examine sampling mail at opening units. A brief investigation of a similar proposal was conducted in the early 1990s.
Current Activity: Review earlier investigation.
Future Activity: Site visits to examine feasibility will be conducted, probably in FY 2001.
Resources: Contractor resources: FY 2001 - $60,000, as part of the Headquarters program. Rate Case Data Quality.

DQS Recommendation: 24 Consider using Point of Service data for rate making purposes
Date of Status: July 2000
Start Date: FY 2000
Background: The Point of Service (POS) system (managed by Retail) has been in operation for three years. Two years ago, Statistical Programs-Finance devoted a full-time staff position to developing expertise in the nature of POS data, how it could be compiled, and how it could be used in place of Domestic RPW sampling (DRPW) data. We are currently acquiring Point of Service data and tracking it against the DRPW results. This data has potential for supplementing or replacing DRPW sample data in the RPW reporting process. Additional applications may involve estimating retail window costs.
Current Activity: Monitor POS revenue and volume estimates with respect to DRPW. When the POS data are equivalent to the DRPW estimates (after adjusting for DRPW sampling error) consider replacing DRPW estimates with POS estimates. Monitor POS data for retail costing applications.
Future Activity: Same as **Current Activity**
Resources: Recommendation addressable by current and anticipated staff and administrative budget.

DQS Recommendation: 30 Revise RPW sampling design (use mail exit points as primary sampling units)
Date of Status: July 2000
Start Date: FY 2000
Background: This could only be done if and when DRPW became a characteristics based system. Only then would we be able to have our part-time data collectors take DRPW-style tests at randomly selected smaller offices. The current complexity of the DRPW sample requires we maintain a stable panel of offices that can be tested by dedicated data collectors who take tests regularly. Given the current data collection instrument, without the current first-stage design we could not guarantee trained and experienced data collectors would be available for all selected tests. Therefore, addressing this item hinges on the outcome of a RPW Characteristics project. Note, however, we are implementing two projects that will address the historical criticisms of the DRPW panel. First, for the Postal Quarter 1 Fiscal Year 2000 sample, we introduced changes that make the design truly nested. Secondly, for Postal Quarter I Fiscal Year 2001, we are planning on drawing new panels, if current budget conditions allow any concomitant increase in workload.
Current Activity: Prepare for PQ 1 FY 2001 implementation for new DRPW panels. Work on RPW Characteristics.
Future Activity: Work on RPW Characteristics. When possible and appropriate, test feasibility of DRPW mail exit point sampling.
Resources: Contractor resources: FY 2002 - $100,000, as part of the Headquarters program, Rate Case Data Quality.

DQS Recommendation: 6 Update the Curbline Access Test
Date of Status: July 2000
Start Date: FY 2001
Background: The Postal Service employs the results of these studies to determine the variability of street delivery costs with respect to the volume of delivered mail by class. The studies are quite dated.
Current Activity: This set of recommendations urges updating this set of city carrier street time costs studies, and the Postal Service concurs that updates are required. However, the Postal Service also recognizes that there may be advantages associated with refining and improving the studies.
Future Activity: Consequently, the Postal Service will undertake a review of the strengths and weaknesses of the current studies in FY2001. This review will be completed before proceeding. This review will depend in part on PRC reactions to the new carrier analysis submitted in R2000-1.
Resources: Contractor resources: FY 2001 - $150,000, as part of the Headquarters program, Rate Case Data Quality. This amount also funds #7.



DQS Recommendation: 7 Update the Foot Access Test
Date of Status: July 2000
Start Date: FY 2001
Background: The Postal Service employs the results of these studies to determine the variability of street delivery costs with respect to the volume of delivered mail by class. The studies are quite dated.
Current Activity: This set of recommendations urges updating this set of city carrier street time costs studies, and the Postal Service concurs that updates are required. However, the Postal Service also recognizes that there may be advantages associated with refining and improving the studies.
Future Activity: Consequently, the Postal Service will undertake a review of the strengths and weaknesses of the current studies in FY2001. This review will be completed before proceeding. This review will depend in part on PRC reactions to the new carrier analysis submitted in R2000-1.
Resources: Contractor resources: FY 2001 - $150,000, as part of the Headquarters program, Rate Case Data Quality. This amount also funds #6.

More detail!

DQS Recommendation: 10 Consider the use of electronically recorded time clock data to split in-office and street costs
Date of Status: July 2000
Start Date: FY 2001
Background: There are two alternative sources for essentially the same information. They are IOCS and time-keeping data. Although time-keeping data are readily available from operational systems, and constitute a complete census, they are not electronically recorded at all places. However, replacing IOCS data with time-keeping data will not result in any cost savings, since this is only one element of the myriad of data collected by IOCS, and most other IOCS data are not available from other sources. Furthermore, there is a disparity between the two sources of information, and changing data sources has the potential of causing a substantial shift in costs between subclasses. We have been investigating this difference intermittently over the last 2-3 years, with the primary focus on IOCS. One potential source was identified in IOCS. Prior to FY 1999, it was possible that IOCS data collectors recorded at-lunch, on-the-street carriers (unpaid time) simply as on-the-street (paid time). Data collection instructions were revised for FY 1999, and the gap between IOCS and time-keeping in-office proportions closed by one-half percent, leaving a gap of more than six percent. Without a better understanding of the reasons for this disparity, we are reluctant to change data sources.
Current Activity: Ongoing monitoring of disparity between IOCS and time-keeping data.
Future Activity: In FY 2001, a thorough investigation of the differences will be conducted, with substantial attention focused on the time-keeping system.
Resources: Postal Service staff: 2 approximately 20% of their time. Contractor Resources: $150,000, as part of the Headquarters program, Rate Case Data Quality.

DQS Recommendation: 18 Evaluate and adjust the TRACS design to improve the precision of these estimates
Date of Status: July 2000
Start Date: FY 2001
Background: The base-line simulation of the coefficients of variation (cv) for unit volume variable costs (UVVC) revealed that sampling error in TRACS is a major contributor to the overall sampling error for Periodicals and Parcel Post UVVC. Highway transportation costs represent a large proportion of the costs for these subclasses.
Current Activity: The statement of work is currently being developed for this project, and is linked with updating the simulation model to compute CVs of UVVCs.
Future Activity: In FY 2001, the distribution of the sample between strata within TRACS will be examined to determine if an alternative distribution will improve the precision of these estimates. Concurrently, the sample distribution between various sub-systems of TRACS, and between TRACS and other systems, will be evaluated. If adjustments are operationally feasible, and the benefits outweigh the costs, the sample allocation will be adjusted by the end of FY 2001.
Resources: Postal service staff: two will devote about eight weeks to this study and implementation of its recommendations. Contractor Resources: FY 2001 - $150, 000, as part of the Headquarters program, Rate Case Data Quality.

DQS Recommendation: 22 Reexamine the retail area and identify sources of data that meet potential new data requirements
Date of Status: July 2000
Start Date: FY 2001
Background: The Postal Service updated portions of its retail cost analysis as part of R97-1. Nevertheless, we are in agreement with the suggestion to identify sources of data that would prove useful in analyzing retail costs.
Current Activity: Activity Based Management is currently monitoring the deployment of the POS system. It is our understanding that POS terminals are in place at approximately 4000 sites. Full deployment (20,000 sites) is expected for 2004.
Future Activity: Following the close of R2000-1, the Postal Service will organize a feasibility study of using POS data to refine the retail costing analysis. Subject to resource availability, this feasibility study would investigate the current status of POS data, identify its utility for costing analyses and attempt to identify when data would be available in acceptable quality and quantity to support such analyses. Further steps will depend upon the outcome of the feasibility study, as well as resource availability and upper management approval.
Resources: Contractor Resources: FY 2001 - $50,000; FY 2002 - $100,000, as part of the Headquarters Program, Rate Case Data Quality. These amounts also fund #23.

DQS Recommendation: 28 Measure precision of data on an ongoing basis.
Date of Status: July 2000
Start Date: FY 2001
Background: A simulation model was used in the DQS to estimate the precision of unit volume variable costs (UVVC). The model included eight of 21 subclasses, and 29 cost components, which accounted for roughly 40% of subclass specific UVVC. The study team recommends using this model to measure precision of UVVC on an ongoing basis, and gradually expand the model to the remaining subclasses and cost components.
Current Activity: The statement of work for this initiative is currently being developed, and is linked with the evaluation of the TRACS sample design.
Future Activity: In FY 2001, the simulation model will be expanded to include other subclasses and add rural carriers and the other components of transportation costs for which TRACS provides distribution keys. Input CVs will be updated to reflect FY 2000 data.
Resources: Postal Service staff: approximately four staff will each devote one month to this activity. Contractor Resources: FY 2001 - $150,000, as part of the Headquarters program, Rate Case Data Quality. This amount also funds #29.

DQS Recommendation: 29
Gradually expand the simulation model to include other subclasses and cost pools
Date of Status: July 2000
Start Date: FY 2001
Background: A simulation model was used in the DQS to estimate the precision of unit volume variable costs (UVVC). The model included eight of 21 subclasses, and 29 cost components, which accounted for roughly 40% of subclass specific UVVC. The study team recommends using this model to measure precision of UVVC on an ongoing basis, and gradually expand the model to the remaining subclasses and cost components.
Current Activity: The statement of work for this initiative is currently being developed, and is linked with the evaluation of the TRACS sample design.
Future Activity: In FY 2001, the simulation model will be expanded to include other subclasses and add rural carriers and the other components of transportation costs for which TRACS provides distribution keys. Input CVs will be updated to reflect FY 2000 data.
Resources: Postal Service staff: approximately four staff will each devote one month to this activity. Contractor Resources: FY 2001 - $150,000, as part of the Headquarters program, Rate Case Data Quality. This amount also funds #28.

DQS Recommendation: 11 Reexamine assumptions concerning capital and support costs
Date of Status: July 2000
Start Date: FY 2002
Background: In order to compute capital and support costs by class of mail, the Postal Service currently relies upon various assumptions about the relation of these costs to the cost of labor. For instance, we assume that supervisor costs are variable with volume to the same extent as the cost of the labor supervised. Recommendation 11 suggests correctly that such assumptions need to be tested for validity.
Current Activity: None
Future Activity: The Postal Service will analyze this issue following the close of R2000-1, subject to budget considerations and upper management approval.
Resources: Contractor Resources: FY 2001 - $50,000; FY 2002 - $50, 000, as part of the Headquarters Program, Rate Case Data Quality.

DQS Recommendation: 20 Consider combining distribution key share sampling for Highway Transportation and Mail Processing platform operations
Date of Status: July 2000
Start Date: FY 2002
Background: Accurate cost distribution of platform operations poses real challenges for both the rate making data systems and for Activity Based Costing. There are potential economies by studying these costs in a joint context, and it may create opportunities for more closely linking rate making data with Activity Based Costing.
Current Activity: None.
Future Activity: This will be examined in the FY 2001-2002 time frame, in concert with our Activity Based Costing efforts.
Resources: Postal Service staff – three staff will each devote about two months to this investigation. Contractor resources: FY 2002 - $200,000, as part of the Headquarters program. Rate Case Data Quality. An additional $50,000 for contractor resources will be needed from the administrative budget for this recommendation in the FY 2001-FY 2002 period.

DQS Recommendation: 23 Determine if transaction driven self-service activities are attributable to products or groups of products
Date of Status: July 2000
Start Date: FY 2002
Background: The Postal Service has not examined this issue, but agrees with the recommendation to study the issue.
Current Activity: None.
Future Activity: Subject to budget considerations and upper management approval, the Postal Service will begin study of this issue following the close of R2000-1.
Resources: Contractor Resources: FY 2001 - $50,000; FY 2002 - $100,000, as part of the Headquarters Program, Rate Case Data Quality. These amounts also fund #22.

Attachment Question # 37d

VOE Survey Index
FY 2000

Cluster	Cluster Name	Target FY2000 Index	Final FY2000 Index	Difference Final from Target	FY99 Index
110	Triboro	61.8	63.6	1.8	60.8
390	Mississippi	63.5	65.1	1.6	63.0
164	Erie	60.0	61.5	1.5	59.0
430	Columbus	54.8	56.0	1.2	52.8
950	San Jose	58.7	59.8	1.1	57.2
330	South Florida	55.8	56.6	0.8	53.8
900	Los Angeles	60.0	60.6	0.6	59.0
120	Albany	60.7	61.2	0.5	59.7
440	Cleveland	53.8	54.3	0.5	51.8
280	Mid-Carolinas	59.2	59.5	0.3	58.2
995	Alaska	59.2	59.5	0.3	57.7
570	Dakotas	64.0	64.1	0.1	63.5
840	Salt Lake City	59.2	59.3	0.1	57.7
700	Louisiana	62.0	61.9	-0.1	61.0
400	Kentuckiana	61.5	61.4	-0.1	60.5
70	Northern NJ	58.7	58.6	-0.1	57.2
100	New York City	59.5	59.3	-0.2	58.5
320	North Florida	59.3	59.0	-0.3	58.3
913	Van Nuys	57.7	57.4	-0.3	55.7
327	Central Florida	57.8	57.4	-0.4	56.3
290	Gr South Carolina	60.7	60.3	-0.4	59.7
220	Northern Virginia	56.2	55.8	-0.4	54.2
480	Royal Oak	56.5	56.0	-0.5	54.5
310	South Georgia	64.5	63.9	-0.6	64.0
150	Pittsburgh	58.2	57.6	-0.6	56.7
852	Arizona	57.7	57.1	-0.6	56.2
270	Greensboro	56.2	55.6	-0.6	54.2
350	Alabama	61.3	60.6	-0.7	60.3
600	Northern Illinois	55.3	54.5	-0.8	53.3
920	San Diego	59.2	58.4	-0.8	57.7
190	Philadelphia	57.2	56.4	-0.8	55.2
335	Suncoast	57.8	56.9	-0.9	56.3
590	Big Sky	63.2	62.3	-0.9	62.2
990	Spokane	60.2	59.2	-1.0	59.2
980	Seattle	57.5	56.5	-1.0	56.0
926	Santa Ana	57.7	56.6	-1.1	56.2
210	Baltimore	57.5	56.4	-1.1	55.5
20	Boston	60.2	59.0	-1.2	59.2
940	San Francisco	58.5	57.3	-1.2	57.0
140	Western New York	60.3	59.0	-1.3	59.3
606	Chicago	56.3	55.0	-1.3	54.3
300	Atlanta	58.2	56.9	-1.3	56.7
40	Maine	62.5	61.1	-1.4	61.5
730	Oklahoma	60.7	59.3	-1.4	59.7
967	Honolulu	63.7	62.2	-1.5	63.2
630	Gateway	59.0	57.5	-1.5	57.5
30	New Hampshire	57.8	56.3	-1.5	55.8
945	Oakland	57.5	56.0	-1.5	55.5

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VOE Survey Index
FY 2000

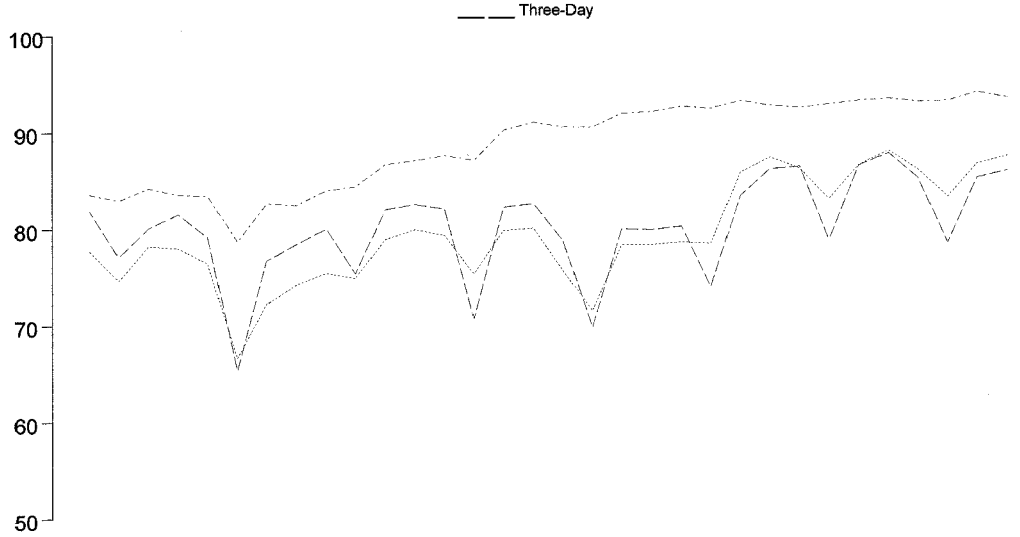
Cluster	Cluster Name	Target FY2000 Index	Final FY2000 Index	Difference Final from Target	FY99 Index
907	Long Beach	60.3	58.7	-1.6	59.3
250	Appalachian	62.5	60.9	-1.6	61.5
956	Sacramento	59.5	57.9	-1.6	58.5
105	Westchester	59.2	57.6	-1.6	58.2
88	Central NJ	57.5	55.9	-1.6	55.5
60	Connecticut	55.2	53.6	-1.6	53.2
890	Las Vegas	58.3	56.6	-1.7	56.8
460	Greater Indiana	57.5	55.8	-1.7	55.5
493	Greater Michigan	60.3	58.5	-1.8	59.3
170	Harrisburg	58.5	56.7	-1.8	57.0
230	Richmond	57.8	56.0	-1.8	55.8
117	Long Island	60.2	58.4	-1.8	59.2
200	Capital	54.7	52.9	-1.8	52.7
553	Northland	57.8	55.9	-1.9	56.3
28	SE New England	59.2	57.3	-1.9	58.2
760	Fort Worth	60.7	58.7	-2.0	59.7
370	Tennessee	60.3	58.2	-2.1	59.3
481	Detroit	56.8	54.7	-2.1	54.8
450	Cincinnati	55.0	52.9	-2.1	53.0
10	Springfield	56.8	54.5	-2.3	54.8
18	Middlesex-Central	57.7	55.4	-2.3	56.2
870	Albuquerque	57.7	55.4	-2.3	55.7
970	Portland	57.7	55.4	-2.3	55.7
780	Rio Grande	59.3	56.8	-2.5	58.3
680	Central Plains	62.7	60.1	-2.6	61.7
500	Hawkeye	60.0	57.4	-2.6	59.0
752	Dallas	56.2	53.6	-2.6	54.2
640	Mid-America	57.8	55.1	-2.7	56.3
800	Colorado/Wyoming	55.8	53.1	-2.7	53.8
604	Central Illinois	57.7	55.0	-2.7	55.7
530	Lakeland	56.5	53.7	-2.8	54.5
80	South Jersey	57.7	54.8	-2.9	56.2
442	Akron	57.8	54.8	-3.0	55.8
175	Lancaster	56.3	53.2	-3.1	54.3
6	Caribbean	63.3	60.1	-3.2	62.3
770	Houston	57.8	54.5	-3.3	56.3
720	Arkansas	65.5	60.2	-5.3	65.0

VOE Survey Index
FY 2000

	Area	Target FY2000 Index	Final FY2000 Index	Difference Final from Target
A	Southeast	59.0	58.6	-0.4
B	Mid-Atlantic	59.2	58.8	-0.4
C	New York	59.8	59.3	-0.5
D	Pacific	59.2	58.3	-0.9
E	Capital Metro	56.0	54.9	-1.1
F	Allegheny	57.2	55.7	-1.5
G	Western	57.8	56.3	-1.5
H	Northeast	59.0	57.4	-1.6
I	Great Lakes	57.2	55.6	-1.6
J	Midwest	58.8	57.0	-1.8
K	Southwest	59.7	57.3	-2.4
	National	58.8	57.5	-1.3

External First-Class Mail Measurement System

Nation Scores



Commit	93:1	93:2	93:3	93:4	94:1	94:2	94:3	94:4	95:1	95:2	95:3	95:4	96:1	96:2	96:3	96:4	97:1	97:2	97:3	97:4	98:1	98:2	98:3	98:4	99:1	99:2	99:3	99:4	00:1	00:2	00:3	00:4	Rec*
1	83.59	83.01	84.30	83.59	83.53	78.80	82.75	82.56	84.09	84.52	86.82	87.23	87.76	87.31	90.41	91.21	90.77	90.75	92.15	92.35	92.86	92.66	93.51	93.02	92.78	93.15	93.54	93.74	93.43	93.53	94.44	93.89	
2	77.78	74.73	78.27	78.10	76.52	66.72	72.37	74.36	75.53	75.04	79.07	80.10	79.49	75.54	80.04	80.25	75.90	71.74	78.59	78.58	78.88	78.70	86.06	87.66	86.47	83.36	86.89	88.37	86.41	83.60	87.02	87.87	
3	61.92	77.16	80.18	81.62	79.24	65.44	76.84	78.55	80.16	75.52	82.19	82.72	82.24	70.93	82.44	82.82	79.01	70.03	80.20	80.14	80.49	74.24	83.68	86.44	86.69	79.18	86.87	88.12	85.59	78.87	85.60	86.38	

*Records throughout this report (H=High,L=Low) are for quarters 92:1 to present and are based on integer rounded scores

c. The incumbent has no assignment or promotion right to the new position if there is a significant change in duties and responsibilities which results in the authorization of a new position at the same or a higher grade and in the abolishment of the present position. The new position is filled in accordance with regular procedures, and the incumbent of the abolished position is assigned in accordance with 354.

d. The incumbent is treated in accordance with 354.241 in any situation where a position is evaluated at a lower grade.

354 Assignment of Unassigned Employees

354.1 Policy

354.11 Bargaining Unit Employees

Assignment of excess bargaining unit employees must be in accordance with the applicable provisions of the National Agreement.

354.12 Nonbargaining Unit Employees

Assignment of unassigned career nonbargaining unit employees must be in accordance with the procedures described in 354.2 and 354.3 as appropriate. Postal policy provides equal opportunities for all employees without discrimination because of race, color, religion, sex, national origin, disability, or age. Especially in exercising the various managerial options described in these procedures, managers are responsible for ensuring and documenting, where appropriate, that no discriminatory impact results from discussions or personnel actions implementing these procedures.

354.2 Assignment of Nonbargaining Unit Employees Due to a Potential or Actual Reduction in Force

354.21 General

354.211 Definition of Reduction in Force

A reduction in force (RIF) is a uniform and systematic way of making organizational changes resulting in the release of an employee from his or her competitive level as defined in 354.217a. A RIF action occurs in the Postal Service when an employee is released from his or her competitive level by separation, demotion, or a reassignment requiring displacement. Release from a competitive level must be caused by elimination or significant modification of existing work, creation of new work, reorganization, transfer of function, an individual's exercise of reemployment or restoration rights, or a reclassification of an employee's position based on the erosion of duties that will take effect after a RIF has been formally announced in the employee's competitive area (see 354.217b) or when a RIF takes effect within 180 days.

Note: With the exception noted above concerning the reclassification of an employee's position, a change to lower grade based on the reclassification of an employee's position due to a change in classification standards or a correction of a classification error is not a RIF.

Attachment Question #82b

Summary of Volumes and Revenues
Comparison of Rate Case Projections and FY Results
Fiscal Year 2000
(Thousands)

	R2000-1 Projections		FY 2000 Actuals		Percent Difference	
Description	Mail Volume	Revenues	Mail Volume	Revenues†	Mail Volume	Revenues
First-Class Mail						
Single-Piece Letters and Sealed Parcels	53,585,016	22,470,798	52,369,535	21,774,114	-2.45%	-3.10%
Presort and Automation Letters	45,096,057	12,300,297	45,675,472	12,552,955	1.28%	2.05%
Total Letters	98,781,073	34,771,095	98,045,007	34,327,069	-0.75%	-1.28%
Single-Piece Cards	2,855,226	593,456	2,719,298	559,432	-4.76%	-5.73%
Presort and Automation Cards	2,600,104	417,473	2,761,407	446,701	6.20%	7.00%
Total Cards	5,455,330	1,010,928	5,480,706	1,006,133	0.47%	-0.47%
Total First-Class Mail	104,236,403	35,782,023	103,525,713	35,515,870	-0.68%	-0.74%
Priority Mail	1,229,818	4,740,686	1,222,454	4,837,056	-0.60%	2.03%
Express Mail	69,876	994,373	70,935	996,100	1.52%	0.17%
Mailgrams	3,858	1,312	3,656	1,519	-5.23%	15.82%
Periodicals						
Within County	892,821	78,090	897,069	76,717	0.48%	-1.76%
Outside County						
Nonprofit	1,988,739	325,153	2,153,400	338,784	8.28%	4.19%
Classroom	58,182	13,456	63,969	14,439	9.95%	7.31%
Regular-Rate	7,457,452	1,812,341	7,250,346	1,723,034	-2.78%	-4.93%
Total Periodicals	10,397,195	2,229,049	10,364,784	2,170,690	-0.31%	-2.62%
Standard Mail (A)						
Regular	41,673,597	8,464,503	43,030,852	8,618,800	3.26%	1.82%
Enhanced Carrier Route	32,691,235	4,896,106	32,775,999	4,879,448	0.26%	-0.34%
Total Commercial	74,364,831	13,360,609	75,806,852	13,498,248	1.94%	1.03%
Nonprofit	11,255,435	1,438,278	11,325,657	1,396,917	0.62%	-2.88%
Enhanced Carrier Route	2,957,311	236,456	2,924,638	216,343	-1.10%	-8.51%
Total Nonprofit	14,212,747	1,674,734	14,250,295	1,613,261	0.26%	-3.67%
Total Standard Mail (A)	88,577,578	15,035,343	90,057,147	15,193,282	1.67%	1.05%
Standard Mail (B)						
Parcel Post	347,342	1,123,975	324,167	1,041,927	-6.67%	-7.30%
Bound Printed Matter	509,795	463,307	560,216	502,902	9.89%	8.55%
Special Rate	208,675	324,472	215,934	317,944	4.48%	-2.01%
Library Rate	28,546	47,742	28,112	47,123	-1.52%	-1.30%
Total Standard Mail (B)	1,092,357	1,959,497	1,128,431	1,912,305	3.30%	-2.41%
USPS Penalty Mail	359,429	0	362,913	0	0.97%	
Free-for-the-Blind	54,952	0	46,638	0	-15.13%	
Total Domestic Mail	206,021,466	60,742,283	206,782,673	60,626,822	0.37%	-0.19%
International Mail	1,048,763	1,690,211	1,099,478	1,657,520	4.84%	-1.93%
Total All Mail	207,070,229	62,432,494	207,882,151	62,284,343	0.39%	-0.24%
Special Services						
Registry	12,675	89,267	8,931	72,356	-29.54%	-18.94%
Certified Mail	281,365	393,911	270,533	385,402	-3.85%	-2.16%
Insurance	46,688	91,684	56,835	105,321	21.73%	14.86%
COD	3,805	19,549	4,131	21,472	8.59%	9.84%
Money Orders *	229,668	265,081	232,759	234,718	1.35%	-11.45%
Stamped Cards and Envelopes		16,835		15,364		-8.74%
Box/Caller Service		728,460		684,207		-6.07%
Other		342,332		346,404		1.19%
Total Special Services		1,947,129		1,865,242		-4.21%
Total Mail & Services	207,070,229	64,379,622	207,882,151	64,149,585	0.39%	-0.36%
Other Income		416,346		531,857		27.74%
Continuing Appropriations						
Investment Income *						
Grand Total	207,070,229	64,795,969	207,882,151	64,681,442	0.39%	-0.18%
* Money order revenues include interest of		51,398		46,823		-8.90%

† Class totals include fees

Source: R2000-1 projections from Exhibit USPS-32C, page 1 of 2, as revised 4-21-2000.
FY 2000 actuals from RPW report.

354.212 **Legal Basis for Reduction in Force**

Laws governing RIF are found in Title 5, United States Code (U.S.C.), 3501–3503. These laws are implemented in the federal government through regulations issued by the U.S. Office of Personnel Management (Title 5, Code of Federal Regulations (CFR), 351). In the Postal Service, these laws apply only to preference eligible employees (individuals entitled to veterans' preference status during a RIF). The legislative provisions making these laws and regulations applicable to preference eligible employees in the Postal Service are found in Title 39, U.S.C., 1005 (a)(2).

354.213 **Management Responsibility**

Management has the responsibility to plan the work and to organize the workforce to accomplish Postal Service objectives. This responsibility includes determining the type, number, and location of positions that are to be filled, abolished, or vacated. When changes are anticipated as a result of this responsibility, management determines whether a reduction in force is necessary and when such action will occur.

The managers of Human Resources at the district and area levels and the manager of Corporate Personnel Management for Headquarters and Headquarters-related units are designated as placement administrators. A placement administrator is responsible for coordinating all RIF avoidance or minimization strategies and placement activities for a competitive area undergoing a RIF. This responsibility includes close coordination with the manager of Selection, Evaluation, and Recognition, competitive area management, and other Human Resources personnel in other competitive areas. The placement administrator is also responsible for coordinating the activities associated with a reinstatement list (see 354.27). A placement administrator who has direct responsibility over the competitive area in which employees have been separated due to a RIF and who have requested consideration for future reinstatement to the Postal Service is considered the "primary" placement administrator.

354.214 **Coverage of Reduction in Force Procedures**

These RIF procedures apply to the assignment or separation *of career nonbargaining unit employees* who occupy positions that have the potential of being impacted by, or will be directly affected by, a reduction in force. They apply to noncareer nonbargaining unit employees only to the extent necessary to terminate their employment to avoid (or minimize) the impact of a reduction in force on career nonbargaining unit employees.

Exclusion. Bargaining unit employees are excluded from these procedures. The assignment or separation of excess bargaining unit employees is in accordance with the applicable collective bargaining agreement and applicable statutes.

354.215 **Veterans' Preference Status**

Entitlement to veterans' preference for RIF purposes is based on the Veterans' Preference Act of 1944, as amended, and is codified in various provisions of 5 U.S.C. Detailed instructions for adjudicating veterans' preference claims are contained in Chapter 7 of *The Guidelines for Processing Personnel Actions*, an operating manual issued by the Office of

Personnel Management. Employees who are retired members of the uniform services must meet an additional condition before they can be granted veterans' preference for RIF purposes. The conditions differ depending on whether they retired below, at, or above the rank of major. Exhibit 354.215a shows the conditions that must be met by retired members of the uniform services before veterans' preference for RIF is granted. Exhibit 354.215b shows the pay grades and titles (ranks) of officers of the uniform services as defined by 5 U.S.C. 2101.

Exhibit 354.215a
Veterans' Preference for Retired Military

Retiree below rank of major must meet one of the following conditions:	Retiree at or above rank of major must meet one of the following conditions:
Be retired based on war or combat-incurred disability.	Be retired based on war or combat-incurred disability.
Be retired based on less than 20 years of active duty.	Be retired based on less than 20 years of active duty.
Have continuous Federal employment since November 30, 1964, without a break in service of more than 30 days.	Have continuous Federal employment since November 30, 1964, without a break in service of more than 30 days.
	Be a disabled veteran eligible for retired pay under 10 U.S.C. 67.

Exhibit 354.215b
Officer Personnel by Pay Grades and Titles (Ranks)

Pay Grade	Army, Air Force, and Marine Corps	Navy, Coast Guard, and NOAA	Public Health Service
Below Major:			
W-1	Warrant officer	Warrant officer	
W-2	Chief warrant officer	Chief warrant officer	
W-3	Chief warrant officer	Chief warrant officer	
W-4	Chief warrant officer	Chief warrant officer	
O-1	Second lieutenant	Ensign	Junior assistant
O-2	First lieutenant	Lieutenant (jg)	Assistant grade
O-3	Captain	Lieutenant	Senior assistant grade
Major and Above:			
O-4	Major	Lieutenant commander	Full grade
O-5	Lieutenant colonel	Commander	Senior grade
O-6	Colonel	Captain	Director grade
O-7	Brigadier general	Rear admiral (lower half) or commodore	Assistant surgeon general
O-8	Major general	Rear admiral (upper half)	Assistant surgeon general
O-9	Lieutenant general	Vice admiral	(Note: PHS does not use O-9 or O-10)
O-10	General	Admiral	

354.216 **Veterans' Preference Entitlement**

Veterans' preference eligible employees are entitled to the following:

a. *Higher Retention Standing.* A preference eligible employee is entitled to a higher retention standing (seniority) on a retention register (see 354.217c) than a nonpreference eligible employee during a RIF.

b. *Assignment rights.* A preference eligible employee in tenure group I or II with a current merit performance rating of *Met Expectations* or higher who is released from his or her competitive level during a RIF may displace another employee with a lower retention standing under certain circumstances. The assignment of a preference eligible employee to a position with an appropriate representative rate (see 354.217g) held by an employee with a lower retention standing can occur either through bumping or retreating.

(1) *Bumping.* A preference eligible employee may replace an employee in the same competitive area who has a lower retention standing and occupies a position that is no more than three grade levels (or appropriate grade interval or equivalent) lower than the position from which the preference eligible employee is released.

(2) *Retreating.* A preference eligible employee may replace an employee in the same competitive area, tenure group, and veterans' preference subgroup who has a lower retention standing and occupies a position identical to a position previously held by the preference eligible employee that is no more than three grade levels (or appropriate grade interval or equivalent) lower than the position from which the preference eligible employee is released. A preference eligible employee with a compensable service-connected disability of 30 percent or more can retreat to a position that is up to five grade levels (or appropriate grade interval or equivalent) lower.

c. *Appeal rights.* A preference eligible employee may file an appeal with the Merit Systems Protection Board (MSPB) under the provisions of 5 CFR 351.901.

354.217 **Definitions and Explanations**

Definitions and explanations relevant to RIF procedures are as follows:

a. *Competitive level* — one or more positions in a competitive area that are:

(1) In the same rate schedule code (e.g., EAS, PCES, etc.) and grade level.

(2) In the same job classification series and leadership code (i.e., type of contribution made to the organization as an executive, mid-level manager, initial-level supervisor, or individual contributor).

(3) Similar enough in duties, qualification standards (knowledge, skills, and abilities), and working conditions so that the incumbent of one position can successfully perform the critical elements of any other position in the level upon assignment to it, without any

loss of productivity during a 90-day orientation period beyond that normally expected of a new employee who is otherwise qualified.

b. *Competitive areas* — organizational units that have separate management authority and geographical boundaries under which employees compete during a reduction in force. As an example, the Center for Employee Development in Norman, OK, is a Headquarters-related field unit; however, it is a separate competitive area because it has its own management authority and geographical boundary. Generally, a competitive area should be in effect for at least 90 days before the effective date of a RIF. The manager of Selection, Evaluation, and Recognition publishes a list of competitive areas in the Postal Bulletin at least annually.

c. *Retention register* — a list of employees by competitive level ranked in descending order based on their retention standing within a specific competitive area. The retention standing for each competing employee is based on his or her tenure group, veterans' preference subgroup, and RIF service date. Employees are listed on the retention register in the following order:

(1) By tenure group I, group II, and group III (see 354.217d).

(2) Within each tenure group, by veterans' preference subgroup AD, subgroup A, or subgroup B (see 354.217e).

(3) Within each veterans' preference subgroup, by RIF service date (see 354.217f).

d. *Tenure groups* — the groups into which employees are separated for retention standing purposes during a RIF, based on their employment status. There are three tenure groups:

(1) *Tenure group I* — career employees who have completed their probationary period.

(2) *Tenure group II* — career employees who are serving their probationary period and who will not complete it before the RIF effective date.

(3) *Tenure group III* — noncareer employees serving under indefinite appointments, temporary appointments pending establishment of a register, status quo appointments, term appointments, and any other nonstatus nontemporary appointments that meet the definition of provisional appointments contained in 5 CFR 316.401 and 316.403.

e. *Veterans' preference subgroups* — the subgroups into which employees are placed based on veterans' preference entitlement. The three preference eligible subgroups are defined as:

(1) *Subgroup AD* — employees entitled to veterans' preference based on a compensable service-connected disability of 30 percent or more.

(2) *Subgroup A* — all other preference eligible employees not included in subgroup AD.

(3) *Subgroup B* — employees who are not preference eligibles.

f. *RIF service date* — the date used in conjunction with the tenure group (see 354.217d) and preference eligible subgroup (see 354.217e) to determine an employee's retention standing on a retention register (see 354.217c) during a RIF. The RIF service date is arrived at by subtracting from the employee's leave computation date the additional years of service credit based on performance ratings.

(1) *Leave computation date* — a date based on total creditable service — generally including all creditable postal service, federal civilian service, and active military service (see 512.2). For an employee who is a retired member of the uniform services (see 354.215), the leave computation date is adjusted by the amount of service credit based on the rank at which an employee retires and the circumstances of the retirement. The specific methodology used to calculate the leave computation date is provided in Exhibit 210d of Handbook EL-301, *Guidelines for Processing Personnel Actions.*

(2) *Performance ratings* — the three most recent merit performance ratings of record received during the 4-year period before the date of issuance of the specific RIF notices. Based on these performance ratings nonbargaining employees are entitled to additional service credit towards their RIF service date, as follows:

(a) Merit performance ratings are used as follows:

(i) If an employee has received *three actual merit performance ratings* of record during the period, the values of the ratings are added together and divided by three (rounded in the case of a fraction to the next higher whole number) to determine the amount of additional service credit.

(ii) If an employee has received *at least one but fewer than three merit performance ratings* of record, the employee receives additional service credit for performance based on the amount derived when the values of the ratings received are added together and divided by the number of ratings actually received (rounded in the case of a fraction to the next higher whole number).

(iii) If an employee has received *no* merit performance ratings of record, the employee receives additional service credit for performance based on the modal rating. The modal rating is determined based on the most prevalent merit performance rating received postal-wide during the most recent performance evaluation period.

(iv) PCES employees are entitled to additional service credit based on a performance rating of *Met Expectations.*

(b) Values are assigned to each merit performance rating of record (or the modal rating) as follows:

(i) Twenty (20) additional years of service are credited for a rating of Far Exceeds Expectations.

(ii) Twelve (12) additional years of service are credited for a rating of Met Expectations.

(iii) No additional years of service are credited for a rating of Unacceptable.

g. *Representative rate* — the hourly pay rate of a position that is used to determine a preference eligible employee's assignment rights during a RIF. The representative rate is calculated by dividing the annual base salary for a position by 2087 hours (number of hours in a government year). The annual base salaries used to derive the representative rates for career nonbargaining unit positions are based on the twenty-fifth (25th) percentile of annual base salary range for each grade level in the Executive and Administrative Schedule (EAS), Structured Management Development (SMD) Schedule, A-E Postmaster (EPM) Schedule, and the Attorney Pay Schedule (APS). Level 01 positions under the Postal Career Executive Schedule (PCES) are subject to a market maximum that is used to cap salaries for each position. The market maximum is used to calculate the appropriate representative rate for PCES-01 positions. PCES-02 positions (corporate officers) are not covered by the RIF procedures.

354.22 Processing Requests for Organizational Change

354.221 Evaluating the Need

Requests to change a Headquarters or field organizational structure are initiated by functional organization management with approval of the functional organization vice president. Such requests are processed as follows:

a. The manager of Customer Requirements reviews and evaluates plan requirements; determines the appropriate categories, numbers, and grade levels of positions; and, if appropriate, develops job descriptions to support new positions and establishes reporting relationships for positions within the competitive areas impacted by the proposed change.

b. The manager of Selection, Evaluation, and Recognition evaluates the impact of the proposed changes within specific competitive areas and determines whether a RIF may be necessary. If a RIF potential exists, the manager of Selection, Evaluation, and Recognition provides functional organization management with a preliminary placement plan that, if possible, outlines the strategies to minimize or completely avoid the need for a RIF.

354.222 **Implementing the Change**

Following the evaluation process and final approval by functional organization management of any revisions to the initial organizational change request and the placement plan, the following action is taken:

a. The manager of Customer Requirements notifies the functional organization vice president and the competitive area management of the new or modified structure and staffing changes to be implemented.

b. The manager of Selection, Evaluation, and Recognition develops qualification standards (knowledge, skills, and abilities) for any new positions and assigns the positions to the appropriate competitive levels. If placement of competitive area employees into the new organization based on competitive levels and qualification standards does not result in a potential RIF situation, the functional organization vice president and competitive area management are advised to proceed to fill any vacant positions under the normal EAS selection procedures. If the organizational change does result in a potential RIF, the manager of Selection, Evaluation, and Recognition is responsible for coordinating RIF avoidance or minimization strategies, conducting the RIF process, and, if necessary, coordinating with competitive area management other placement opportunities that may be available.

354.23 **Implementing RIF Avoidance or Minimization Strategies**

To minimize or avoid the impact of a RIF, the manager of Selection, Evaluation, and Recognition in coordination with the functional organization vice president and competitive area management may implement some or all of the following actions, either in the competitive area proposed to undergo the RIF or in additional specified competitive areas:

a. Freeze hiring and promotion actions.

b. Separate contract employees, temporary employees, and reemployed annuitants.

c. Reassign employees out of a competitive area for which a RIF may be required and into vacant positions in competitive areas where a RIF is not being contemplated. Reassignments may be made to positions within or outside the commuting area and may be voluntary (e.g., where an employee has responded to a vacancy announcement) or directed by management. Such assignments are not subject to RIF procedures so long as preference eligible employees are not involuntarily placed into lower grade positions.

d. Cancel all detail and temporary promotion Forms 50.

e. Terminate probationary employees.

f. Approve employee requests to voluntarily change to vacant positions at lower grades within the competitive area, including bargaining unit positions.

g. Provide voluntary resignation incentives.

h. Obtain approval from the Office of Personnel Management (OPM) to offer a voluntary early retirement option.

i. Provide voluntary early retirement incentives.

j. When circumstances warrant, implement other RIF avoidance measures, provided such measures are in compliance with regulations and, if appropriate, the applicable collective bargaining agreements.

354.24 Providing Initial Notification and Making Preliminary Placements

354.241 Notifying Employees of a Potential RIF

If a potential RIF situation exists, management at the competitive area must meet with employees to advise them of the situation, either individually or in groups. This meeting occurs after approval is received from Customer Requirements and Selection, Evaluation, and Recognition but before issuance of the general RIF notice. The information provided to employees includes, if applicable:

a. A description of the new organization, including the job title and number of any new positions added, their grade levels and reporting relationships.

b. The number of positions by title and grade level in the organization being abolished.

c. The position titles, grade levels, or organizational function that will be directly impacted by the RIF.

d. The options available to potentially impacted employees, including any RIF avoidance or minimization strategies that will be utilized (see 354.23).

354.242 Establishing Employee Qualifications

Employees who may be impacted by a RIF must provide updated pages 1 and 2 of Form 991, *Application for Promotion or Assignment*, to establish their qualifications for vacant positions that remain in the new organization at the same grade level, if any.

354.243 Making Preliminary Placements

Management at a competitive area in coordination with the manager of Selection, Evaluation, and Recognition matches employees to positions, including any vacant positions at the same grade levels, if any, in the new organization, based on employee qualifications and position requirements.

354.25 Implementing RIF Procedures

354.251 Issuing General RIF Notices

A RIF situation exists if a preference eligible employee in the competitive area undergoing a potential RIF is matched to a lower grade position or is unplaced following the preliminary placement procedures in 354.243. The manager of Selection, Evaluation, and Recognition issues a general RIF notice to all employees within the competitive area. The general RIF notice advises employees that a RIF exists within their competitive area and provides the following information:

a. The business reasons for the RIF.

b. The position titles, grade levels, and organizational functions that will be directly impacted by the RIF.

c. The RIF effective date is established no less than 60 days after anticipated receipt of specific RIF notices. Generally, the RIF effective date is established at the close of business on the last Friday of a pay period.

354.252 **Issuing Specific RIF Notices**

The manager of Selection, Evaluation, and Recognition issues specific RIF notices to all employees within the competitive area no less than 30 days after the issuance of the general RIF notice. Each specific RIF notice either advises an employee that he or she has been placed in the new organization, giving the position title, grade level, occupational code, and duty station location, or that he or she did not receive a placement offer and will be separated from the Postal Service. The specific RIF notice also contains the following:

a. Information used to determine an employee's assignment rights in the RIF, including the competitive area, competitive level, tenure group, veterans' preference subgroup, RIF service date, and the four most recent merit performance ratings of record.

b. A statement that all employees are entitled to review the Office of Personnel Management's retention regulations (5 CFR 351) at their personnel services office.

c. If the employee is a preference eligible, a copy of the MSPB regulations (5 CFR 1201) and appeal form.

d. If the employee did not receive a placement offer and was notified that he or she would be separated from the Postal Service:

(1) A document titled *Explanation of Compensation Programs.*

(2) Form 999, *Application for Reinstatement List.*

e. If the employee is a preference eligible who is changed to a lower grade level as a result of the RIF, information concerning Veterans' Preference Saved Grade NTE and Veterans' Preference Retained Salary under the provisions of 415.32.

354.253 **Placing Unplaced or Displaced Employees**

Procedures for placing employees before the RIF effective date are as follows:

a. Preference eligible employees not placed based on their RIF rights and nonpreference eligible employees are considered for any appropriate and available vacant positions remaining in their competitive area as follows:

(1) Following the issuance of the specific RIF notice, the manager of Selection, Evaluation, and Recognition provides the placement administrator with a list of employees not placed during the specific RIF action (see 354.252), and a list of vacant positions within the competitive area undergoing the RIF, if any. In the case of closure of an entire competitive area, all positions are abolished and no placement opportunities remain within the competitive area.

(2) Any vacant positions that exist in the competitive area are used as placement opportunities during a 2-week period beginning with the date of receipt of the lists. During this 2-week period, qualified employees are matched to these vacant positions. If warranted by the number of vacant positions and individuals impacted by the RIF, the placement administrator, with the help of a committee, if desired, may review Forms 991 and establish employee referral lists of individuals who meet the basic qualifications for available vacancies. If not, directed reassignments may be made. Forms 50 for these selections bear the same effective date as the RIF effective date.

(3) Selecting officials must return the entire placement file to the placement administrator, including the referral list and Forms 991, with a written list of selected employees in rank order, within 1 week. Selecting officials should list more than one acceptable selection for each vacancy, if possible.

b. Career bargaining unit employees displaced in order to afford a preference eligible his or her RIF assignment rights are reassigned in accordance with the applicable collective bargaining agreement.

354.254 **Advising Employees of Options**

During the week before the effective date of the RIF, the placement administrator meets, individually or in groups, with employees who remain unplaced to discuss in detail the following options:

a. *Nonpay, Nonduty Status.* Employees who do not expect to be placed by the RIF effective date may request to be placed in a 30-day nonpay, nonduty status. The placement administrator must receive this request before the RIF effective date. During the 30-day extension, employees may continue to seek a position with the Postal Service based on the conditions specified in 354.26.

b. *Compensation Alternatives.* Generally, information provided about compensation alternatives that may be available to employees upon separation should include:

(1) An overview of the compensation programs available to separated employees and answers to any questions employees may have concerning the information previously provided in the *Explanation of Compensation Programs* attached to the specific RIF notice.

(2) Assistance in identifying and completing the forms necessary to apply for any compensation to which individuals may be entitled.

(3) A reminder for those individuals who have not indicated an interest in being reinstated that they are eligible to apply for placement on the reinstatement list (see 354.27).

354.255 **Separating Remaining Employees**

Employees who decline or fail to request a 30-day extension in a nonpay, nonduty status by the RIF effective date are separated on that date.

354.26 Making Post-RIF Employee Placements

Employees placed on a 30-day extension in a nonpay, nonduty status have the following options:

a. *Noncompetitive Consideration.* Employees may apply noncompetitively for any vacancy at or below their current grade within the commuting area. Employees assigned to a lower grade position are entitled to grade and salary treatment in accordance with 415.4.

b. *Voluntary Bargaining Unit Position Placement.* If employees meet the qualifications for vacant bargaining unit positions, they may volunteer for placement into such vacancies subject to the approval of the manager of the unit where the vacancy exists. Seniority and pay provisions governing such placements are in accordance with the applicable collective bargaining agreement.

354.27 Establishing a Reinstatement List

354.271 Providing Priority Consideration to Employees

A reinstatement list (RL) identifies eligible career nonbargaining unit employees who have been separated due to a RIF for priority consideration for reinstatement to the Postal Service.

The RL is established on the 31st day following the RIF effective date, provided one or more employees have been found eligible for placement on the RL. The RL remains in effect for 2 years following its establishment or until no eligible employees remain on the RL, whichever is earlier.

Note: Acceptance of an employee's Form 999, *Application for Reinstatement List,* and placement on the RL does not guarantee former employees reinstatement to the Postal Service.

354.272 Determining Employee Eligibility

Employees are eligible to be placed on a RL if:

a. They received a specific RIF notice indicating that they will be separated from the Postal Service and are subsequently separated on their RIF effective date. Employees who retire on or after their RIF effective date are eligible for placement on the RL provided they meet all other eligibility requirements.

b. Their last merit performance rating of record before separation was above *Unacceptable.*

c. They submit their Form 999 no later than 30 days after their RIF effective date.

d. They are found at least "minimally qualified" by the primary placement administrator for one or more of the positions identified on their Form 999.

354.273 Considering Employees on a Reinstatement List

Provisions for RL list consideration are as follows:

a. Eligible RL applicants are provided initial consideration before advertisement of a vacant position within their competitive area and all other competitive areas within commuting distance not undergoing a

RIF action (the reinstatement list area of consideration (RLAC)). Consideration is limited to those applicants who have been found at least minimally qualified for the vacant position by the primary placement administrator.

Note: A vacant position does not include positions that are filled through other special programs such as the restoration of individuals who served in the uniform services and the reemployment or reassignment of employees injured on duty.

b. Positions identified by eligible RL applicants on their Form 999 for which they have been found at least minimally qualified by the primary placement administrator must be:

(1) Authorized positions within the RLAC.

(2) At the same or lower grade level (or representative rate for PCES employees) as the positions held before separation due to a RIF action.

c. After initial consideration, eligible RL applicants may either be given further consideration for the identified vacant position on a competitive or noncompetitive basis or not be considered further. A decision to not consider an applicant further for a particular vacancy does not impact the applicant's standing on the RL. It does not prevent the applicant from being considered for a similar vacant position at a later date or any other position that the applicant has been found eligible to be considered for on the RL.

354.274 Removing Employees From a Reinstatement List

Employees are considered disqualified and their names removed from the RL, if they do any of the following:

a. Accept a career appointment with the Postal Service or other federal agency.

b. Voluntarily request, in writing, to have their names removed from the RL.

c. Decline or fail to reply to a written or telephonic notification concerning an employment opportunity to a specific position identified on the RL.

d. Decline an interview or fail to appear for a scheduled interview, provided they are notified in advance of the interview and do not take reasonable action to reschedule the interview.

e. Fail to provide the placement administrator with any changes in their address or telephone number and thus prevent contact concerning potential employment opportunities.

354.3 Actions for Nonbargaining Employees in Connection with the Discontinuance and Consolidation of Post Offices

354.31 Background

Statutory and regulatory requirements mandate consideration of the effect of closing or consolidating a post office on Postal Service employees in that

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RECOMMENDATIONS	LEAD	STAKEHOLDERS	OTHERS
VIOLENCE IN THE WORKPLACE **1. Selection** • Ensure that the hiring officials understand that all applicants must be screened for eligibility and suitability, including screening signals of potential violence regardless of veteran status.	**Michael Hubbard/Larry Hall** SER	Inspection Service Law Department Personnel SER	
• Require the timely completion of evaluations before the probationary period ends.	SER	Personnel SER	
• Give special consideration to non-career employees in the hiring for career positions.	SER	Personnel SER	
2. Zero Tolerance for Violence • USPS and employee organizations develop clear and specific guidelines for the implementation of the policy of zero tolerance for violence. Such guidelines should define threats and violence by listing specific behavior and providing examples. Guidelines should list specific factors to be considered in determining discipline, such as motivation, record of previous threatening or violent behavior, perceived seriousness of a threat, and degree of actual or potential harm to the victim.	Labor Relations	Inspection Service Labor Relations Law Department Unions Management Associations	District/Plant Managers ADR Coordinators
3. Violence Awareness Training • The USPS make training in the violence awareness and related areas mandatory for employees at all levels and offer periodic, mandatory refresher training.	WEI	Inspection Service Law Department	Employee Development

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RECOMMENDATIONS	LEAD	STAKEHOLDERS	OTHERS
• Unions join management in developing violence awareness programs and union officials receive violence awareness training.	WEI	Unions Management Associations	
4. **Threat Assessment and Crisis Management** • Hold Area Vice Presidents and performance cluster managers accountable through performance reviews and pay initiatives for establishing and operating threat assessment and crisis management teams.	HQ Officers AVPs	Law Department SER WEI	
• Improve employee understanding of the threat assessment and crisis management process, especially how to report threats.	WEI	District/Plant Managers Labor Relations	Unions Management Associations
• Unions participate in threat assessment and crisis management teams.	WEI	District/Plant Managers Unions Management Associations Labor Relations	Inspection Service
• The USPS and the unions develop a process for allowing craft employees to transfer between facilities without losing seniority in special circumstances, such as to avoid threats, stalking, or harassment. Such circumstances should be clearly circumscribed so as not to undermine the seniority system overall.	Labor Relations	Law Department SER Unions Management Associations	Inspection Service
5. **Fitness-for-Duty Examination** • Requiring medical staff to coordinate with the threat assessment team.	Medical Director/Associates	Injury Comp. Safety WEI	OHNAs

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RECOMMENDATIONS	LEAD	STAKEHOLDERS	OTHERS
• Incorporating guidance about how to request a fitness-for-duty exam to assess dangerousness into the Associate Supervisor Program and workplace violence awareness training for supervisors and managers.	Medical Director/Associates	WEI Law Department	Labor Relations OHNAs Employee Development
• Making it standard practice for the threat assessment team to assist managers in developing return-to-work plans for employees found fit for duty after a dangerousness assessment.	WEI	Medical Dir./Associates Safety Injury Compensation OHNAs	
• Clarifying the standards for providers of fitness-for-duty exams to assess dangerousness.	Medical Director/Associates	Safety OHNAs WEI	Inspection Service
• Communicating to field medical staff the requirement to consult with the national medical director in interpreting psychiatric fitness-for-duty exams.	Medical Director/Associates	Safety Injury Compensation WEI	Inspection Service
6. Systems for Tracking Violence and Potential Violence • Integrate additional information related to violence into the work environment indicators, such as aggregate data on threats and assaults, threat assessment activity, drug and alcohol test results, and patterns in EAP use and mental health fitness-for-duty exams.	WEI	Inspection Service EAP Law Department SER	
• Make work environment indicators available for units within performance clusters.	SER	Strategic Business Outlook WEI	Safety Injury Comp. Labor Relations
• Clarify the criteria and process for designating troubled work sites.	WEI	Labor Relations Unions Management Associations	HQ WEI Advisory Comm.

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RECOMMENDATIONS	LEAD	STAKEHOLDERS	OTHERS
• Intensify the sharing of best local practices in violence prevention.	WEI	District/Plant Managers Inspection Service	
7. Terminations • USPS expand the pilot training program "Separation: A Peaceful Parting" nationwide, incorporating lessons from the pilot phase.	WEI	Inspection Service Law Department SER Unions Management Associations	Employee Development
• The unions develop systematic and sensitive procedures and train those responsible for notifying grievants when a termination has been upheld in arbitration.	Labor Relations	Unions Management Associations Inspections Service	
SECURITY **8. Security** • Establish a communication system for carriers on delivery routes, especially in high crime and remote areas.	**Michael Hubbard/Larry Hall** Delivery/Operations	Inspection Service Law Department District Managers	
• Educate employees about facility security.	Inspection Service	Area Security Coordinators PPOs District/Plant Managers	
EMPLOYEE ASSISTANCE PROGRAM **9. EAP** • Increase communication about the employee assistance program, focusing especially on concerns about confidentiality and the perception that the program is used to punish employees.	**Nancy James/John Flynn** WEI/National Joint Committee	Safety	
• Encourage local joint management/union oversight of the EAP.	WEI	Labor Relations Unions Management Associations	
MANAGEMENT **10. Management Skills** • Improve interpersonal skills of supervisors and managers through ongoing training, including training in conflict management.	**Peter Marcello** WEI	Labor Relations Operations Employee Development	

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RECOMMENDATIONS	LEAD	STAKEHOLDERS	OTHERS
• Track participation of supervisors and managers in training, and hold field managers accountable (through performance reviews and pay incentives) for execution of training programs.	SER	HRIS	
• Provide continuing training and support for new supervisors, including mentoring and networking.	Employee Development	Senior and Area Mgt.	
• Increase the desirability of first-line supervisory positions through special recognition programs, training, career development opportunities, or pay.	SER	Compensation Employee Development Operations	
• Provide training and support to help supervisors use weekly safety talks effectively, and incorporate violence prevention messages into these talks.	WEI	Corporate Communications Employee Development Labor Relations	
• Improve training to help supervisors and managers recognize and respond effectively to substance abusers and recovering individuals.	WEI/EAP	Employee Development	
11. **Incentives for Managers** • Require that effective personnel management and communication be included in managers' individual performance evaluations, and to develop mechanisms for managers to receive feedback from subordinates and peers.	WEI	SER	
• Continue using employee survey results to determine variable pay for employees.	SER	Human Resources Operations	

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RECOMMENDATIONS	LEAD	STAKEHOLDERS	OTHERS
GRIEVANCES **12. Dispute Resolution (Mgt./Unions)** • Repair the dispute resolution processes, which are a major source of frustration for employees and managers, by developing ways to prevent grievance, EEO, and other complaints; resolving disputes quickly at the lowest level; and sharply reducing the backlog.	**Ann Quigley/Glen Mazur** Labor Relations	EEO Law Department Labor Relations Unions Management Associations	
• Develop contract provisions to limit parallel filing of complaints in more than one system.	LR		
• Limit filing of multiple identical complaints, e.g., by using class action procedures.	LR		
• Use the new grievance tracking system to identify patterns in grievances.	LR		
• Continue to expand the use of mediation to resolve EEO complaints.	LR		
• Step up national summit meetings facilitated by the Federal Mediation and Conciliation Service, and efforts to develop joint long-term plans to improve the work climate.	LR		
• Initiate summit meetings at the local level.	LR		
• Expand joint training for management and union officials in contract interpretation, interpersonal skills, and violence awareness.	LR/WEI		
• Increase the use of independent counselors and investigators rather than USPS employees to handle EEO complaints.	LR		

RECOMMENDATIONS	LEAD	STAKEHOLDERS	OTHERS
CRAFT	**Peter Marcello**		
13. Incentives for Craft Employees • Improve tools for individual workload and performance measurement, and provide individual performance feedback for craft employees.	Operations WEI (performance feedback)	Labor Relations Unions Management Associations Engineering	
• In partnership with the unions, develop performance-based financial incentives for craft employees, such as profit sharing at the national or local level, pay-for-knowledge, individual performance evaluation with links to pay, increased use of recognition programs including cash and non-cash awards.		Compensation Operations SER Unions Management Associations	
• In partnership with the National Association of Letter Carriers, develop new procedures to reduce daily conflict between city letter carriers and supervisors over workload.		NALC Delivery Gateway Planning	